INDIANA FINANCE AUTHORITY
ANNUAL FINANCIAL STATEMENTS
June 30, 2006

INDIANA FINANCE AUTHORITY
FINANCIAL STATEMENTS
June 30, 2006

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REPORT OF INDEPENDENT AUDITORS

Members of the Indiana Finance Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Indiana Finance Authority (the "IFA") as of and for the year ended June 30, 2006, which collectively comprise the IFA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the IFA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained *in Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants,* issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the IFA as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

(Continued)

The accompanying required supplementary information, such as management's discussion and analysis on pages 3 through 15, budgetary comparison information on pages 75 through 76, and Indiana Toll Road infrastructure condition rating information on page 77 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying segment reporting schedules are presented for purposes of additional analysis of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2006, on our consideration of the IFA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing results of our audit.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 11, 2006

PART 1 - MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Indiana Finance Authority (the "IFA") financial report provides a discussion and analysis of the financial performance during the year ended June 30, 2006. Please read it in conjunction with the Report of the Independent Auditors at the beginning of this report and the financial statements, which follow this section.

This MD&A is an opportunity for management to make information concerning the IFA meaningful and understandable to the IFA's constituents, including Indiana's citizens and their representatives and the investors who buy and sell the IFA's bonds. In addition to describing the IFA and its work, this MD&A briefly analyzes, discusses or presents:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Significant capital assets and long-term debt activity
- Currently known facts

Background: Formed on May 15, 2005, the IFA combined five formerly independent bodies under one entity. The entities combined included the Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission and the State Revolving Fund. Effective July 1, 2005, all records, money, and other property held by the Auditor of State with respect to the Supplemental Drinking Water and Wastewater Assistance Program were transferred to the IFA as the successor entity. The IFA is a body both corporate and politic, and though separate from the State of Indiana (the "State"); the exercise by the IFA of its powers constitutes an essential governmental function. Indiana's constitution restricts State incurrence of debt. As a result, the General Assembly created the IFA and authorized it to issue revenue bonds and other obligations to finance projects for lease to the State. These leases do not constitute State debt. Except as described elsewhere in this MD&A, lease rentals are payable solely from appropriations made by the General Assembly.

The IFA finances and refinances state hospitals, state office buildings, state garages, correctional facilities, recreational facilities, highways, bridges, airport facilities, and other related facilities for the benefit of the State. The IFA also provides low interest loans to Indiana communities for environmental improvements. It also promotes business and employment opportunities by issuing tax-exempt financing for industrial development projects, rural development projects, childcare financing, and educational facility projects.

The IFA's revenue bonds and notes are special and limited obligations of the IFA, payable from lease rental revenue, bond or note proceeds and investment income. The IFA's revenue bonds are not general obligations of the IFA nor are they State debt within the meaning of any constitutional provision or limitation. The IFA cannot compel the General Assembly to make appropriations to pay lease rentals.

(Continued)

Financial Highlights: Management believes an important indicator of the IFA's financial health is whether or not the IFA receives sufficient lease rental revenue to pay debt service on the IFA's revenue bonds and meet its other obligations when due. In Fiscal Year 2006 and prior fiscal years since the IFA and its predecessor entities were established, the IFA received sufficient revenue to pay its debts and meet its other obligations.

To note some major accomplishments in Fiscal Year 2006, the IFA:

- paid over $520 million of principal and interest on long-term debt
- issued $400 million of revenue bonds to finance a new stadium in Indianapolis
- leased the Indiana East–West Toll Road (the "Indiana Toll Road") for $3.8 billion and used the proceeds to payoff the outstanding Indiana Toll Road bonds and provide funding for the Major Moves initiative which will improve both State and local road infrastructure

Management understands that the IFA's revenue and net assets may increase or decrease in any particular fiscal year, but such increases and decreases primarily result from timing of receipts and expenditures, financings, including issuance of new revenue bond and note issues, and construction activities.

Although the IFA reports through a number of enterprise funds, the IFA is not a profit making enterprise. The IFA exists to benefit the State through its ability to finance and refinance important State infrastructure needs, and not to grow revenue and net assets over time.

BASIC FINANCIAL STATEMENTS

The basic financial statements include kinds of statements required by the Governmental Accounting Standards Board ("GASB") that present different financial views of the IFA:

A. The first two statements are government wide financial statements that provide both long-term and short-term information about the IFA's overall financial status.

B. The remaining statements are fund financial statements that focus on individual parts of the IFA, reporting the IFA's operation in more detail than the government wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed. Please note the breakdown of the statements is required by GASB and for audited financial statement reporting only.

(Continued)

A. **Government Wide Financial Statements** report information about the IFA as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the IFA's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Net assets, the difference between the IFA's assets and liabilities, are one way to measure the IFA's financial position. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the IFA is improving or deteriorating. The government wide financial statements of the IFA are divided into two categories:

1. **Governmental Activities** generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are reported in governmental funds or internal service funds. Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Stadium and Convention Center Financing, and State Office Building Commission.

   Governmental Activities reported under governmental funds include the Operating Account (General Funds), Capital Access Program Fund, Guaranty Fund, Business Development Loan Fund, Rural & Agriculture Development Loan Fund, Environmental Remediation Revolving Loan Fund, Petroleum Remediation Grant Fund, Brownfield Cleanup Revolving Fund, and Interstate Bridge Fund.

2. **Business-Type Activities** are financed in whole or in part by fees charged to external parties for goods or services. These activities are reported in proprietary funds or internal service funds. Business-Type Activities include the State Revolving Fund, Supplemental Fund, Airport Facilities Fund, Indiana Toll Road Lease Fund, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Project Fund, and the Recreational Development Commission.

To determine the appropriate reporting, IFA has considered the following characteristics:

- The relationship between services received and resources provided by the consumer:
  - Governmental – Resources typically not derived from specific services.
  - Business-Type – Direct relationship between the charge and the service provided.

- Revenue-producing capital assets:
  - Governmental – Capital assets do not have a direct relationship to revenue raising capability.
  - Business-Type – Capital assets are typically revenue producing.

(Continued)

- Similarly designated activities and potential for comparison:
  - Governmental – Government may perform multiple or unique functions and are difficult to compare to other governments.
  - Business-Type – Government typically performs a single function that allows for comparability with other governments.
- Nature of funding and budgets:
  - Governmental – Typically part of overall legally adopted governmental budget process.
  - Business-Type – May involve rate setting and appropriations.

- Users and uses of financial reports:
  - Governmental – Emphasis on financial condition and results of operations of a multipurpose functions and broader group of users including citizens, legislative and oversight bodies, and investors/creditors.
  - Business-Type – Emphasis on financial condition and results of operations of a single activity, related compliance and reasonableness of user charges.

B. Fund Financial Statements provide detailed information about the IFA's significant funds, not the IFA entity as a whole. The IFA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The IFA has two kinds of funds:

1. **Governmental Funds** report activities for the IFA and other State Agencies that support the overall State's basic services. The IFA uses the following governmental funds:

    Operating Account reports on the administrative functions of the IFA, which includes salary, benefits and other expenses that support the related financings and refinancing activities.

    Capital Access Program Fund is a special revenue fund reporting on a credit enhancement program for small business that creates a reserve fund to provide additional collateral for lenders.

    Guaranty Fund is a special revenue fund, which provides principal guarantees to lenders for the benefit of high growth/high skilled companies, manufacturers, and other businesses that create or retain Indiana jobs.

    Business Development Loan Fund is a special revenue fund, which provides direct interest loans to businesses that meet economic development criteria of high skilled/high growth jobs.

    Rural & Agricultural Development Loan Fund is similar to the Guaranty Fund and is a special revenue fund that provides principal guarantees to lenders for rural development and value-added agricultural projects.

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Environmental Remediation Revolving Loan Fund & Petroleum Remediation Grant Fund is a special revenue fund, which provides financing for environmental clean up to local Indiana communities.

Brownfield Cleanup Revolving Fund is a special revenue fund created by statute that provides financial, technical, legal, and educational assistance to eligible entities involved in Brownfield redevelopment.

Interstate Bridge Fund is a capital project fund created by statute for paying the cost of interstate bridges and improvements to such bridges. This fund is held by the IFA and managed by the Indiana Department of Transportation (INDOT) on the IFA's behalf.

2. **Proprietary Funds** report activities for which the IFA charges lease amounts or user fees to customers that are similar. Under the proprietary funds, there are two types of sub-funds: 1) enterprise funds track business-type activities, while 2) internal service funds report activities providing general support for the IFA's programs.

   a. **Enterprise Funds**

State Revolving Fund reports on low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure.

Supplemental Fund reports on low interest loans and grants provided to Indiana communities to improve drinking water and wastewater infrastructure.

Indiana Toll Road Lease Fund includes the IFA's lease to the Indiana Toll Road Concession Company, LLC ("ITRCC"). The ITRCC is responsible for the operation and maintenance of the Indiana Toll Road.

Airport Facilities Fund reports on the direct financing activities for airport or aviation related property of facilities referred to by the IFA as the Indianapolis Maintenance Center ("IMC").

Aviation Technology Center Fund reports on the direct financing activities for airport or aviation related property or facilities referred to by the IFA as the Aviation Technology Center.

Toll Bridge Fund is specified for accounting of the net assets and operations of the Wabash River Toll Bridge. The IFA has full control and approval responsibilities for the Wabash River Toll Bridge. However, INDOT has responsibility for operation, maintenance, financial control and reporting for the Wabash River Toll Bridge.

(Continued)

b. <u>Internal Service Funds</u>

Indiana Toll Road Project was leased by the IFA to INDOT prior to the lease with the ITRCC. INDOT was responsible for the operation and financing the Indiana Toll Road Project until June 29, 2006.

Highway Revenue Bonds is an internal service fund that provides financing for the construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

Stadium and Convention Center Financing is an internal service fund providing financing for the new Stadium being built in Indianapolis and managed by the Indiana Stadium and Convention Building Authority.

State Office Building Commission reports on the financing activities for State office buildings, garages, hospitals and correctional facilities. These facilities are owned by the IFA but operated and maintained by the Indiana Department of Administration.

Recreational Development Commission reports on the financing activities of recreational facilities constructed in State parks. The Indiana Department of Natural Resources is responsible for the operation, maintenance and financing of these facilities.

(Continued)

CONDENSED FINANCIAL INFORMATION; OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND SIGNIFICANT TRANSACTIONS WITHIN INDIVIDUAL FUNDS

This section provides an overview of the overall financial position, results of operations and significant transactions within individual funds.

Net Assets: The following is condensed from the Statement of Net Assets:

Indiana Finance Authority
Condensed Statement of Net Assets (in millions of dollars)
June 30, 2006

	Governmental Activities	Business Activities	Total Activities
Assets			
Cash and investments	$ 376	$ 4,964	$ 5,340
Accounts, loans, and lease receivable	431	1,238	1,669
Investment in direct financing leases	1,286	211	1,497
Interest in assets held by Toll Road Project	-	7*	7*
Capital assets, net	890	296	1,186
Other assets	10	10	20
Total assets	$ 2,993	$ 6,726	$ 9,719
Liabilities and net assets			
Liabilities			
Accounts payable and other liabilities	$ 16	$ 4	$ 20
Interest payable	38	31	69
Deferred revenue	3	3,766*	3,769*
Due to primary government	3	3,619*	3,622*
Bonds payable and other long-term obligations	2,694	1,875	4,569
Total liabilities	2,754	9,295	12,049
Net assets			
Invested in capital assets, net of related debt	4	1	5
Restricted	152	795	947
Unrestricted	83	(3,365)*	(3,282)*
Total net assets	239	(2,569)*	(2,330)*
Total liabilities and net assets	$ 2,993	$ 6,726	$ 9,719

(Continued)

The total net assets at June 30 were as follows:

	2006	2005
Assets	$ 9,719	$ 5,490
Liabilities	(12,049)	(4,316)
Net assets	$ (2,330)*	$ 1,174

The net assets were $2,330 million at June 30, 2006, which represents a $3,503 million, or 290%, decrease from the prior Fiscal Year net assets. Total assets increased by $4,230 million, while total liabilities increased by $7,733 million.

*The primary reasons for the increases in assets and liabilities are related to the Indiana Toll Road lease. On June 29, 2006, the IFA leased the Indiana Toll Road for a one-time payment of $3.8 billion to the ITRCC for 75 years. Under the legislation passed by the Indiana General Assembly, the IFA was required to transfer $3.6 billion of the lease payment to the State to fund the Major Moves initiative to improve both State and local transportation infrastructure. The IFA will recognize lease revenue over the life of the lease on a straight-line basis.

Change in Net Assets: The following is condensed from the Statement of Activities:

Indiana Finance Authority
Statement of Activities (in millions of dollars)
Year Ended June 30, 2006

	Governmental Activities	Business-Type Activities	Total Activities
Revenues			
Lease rental	$ 178	$ 30	$ 208
Investment earnings	14	61	75
Interest on loans	9	37	46
State appropriations and grants	7	33	40
Other	5	7	12
Total revenues	213	168	381
Expenses			
IFA operations and other	35	10	45
Interest expense	129	93	222
Distribution to primary government	-	3,618*	3,618*
Total expenses	164	3,721	3,885
Change in net assets	49	(3,553)*	(3,504)*
Net assets, beginning of year	190	984	1,174
Net assets, end of year	$ 239	$ (2,569)	$ (2,330)

(Continued)

	2006	2005
Revenues	$ 381	$ 347
Expenses	(3,885)*	(261)
Change in net assets	$ (3,504)*	$ 86

The decrease in net assets was $3,504 million for the Fiscal Year ended June 30, 2006, as compared to an increase of net assets of $86 million for the prior Fiscal Year. Revenue increased by $34 million, which represents a 10% change from the prior Fiscal Year. Expenses increased by $3,624 million, which represents over 1000% change from the prior Fiscal Year.

*The distribution to the State from the Indiana Toll Road lease payment caused net assets to decrease by $3,618 million. Net assets would have increased by $114 million had the distribution not taken place.

SIGNIFICANT CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

Analysis of Infrastructure Assets: The primary infrastructure assets related to the IFA are within the Highway Revenue Bonds and the Indiana Toll Road Lease Fund.

> **Highway Revenue Bonds** - The nature of the direct financing lease activity between the IFA and INDOT means that the IFA does not own infrastructure assets related to the Highway Revenue Bonds. Instead, the IFA has an interest in direct financing lease assets on the Statement of Net Assets for $1.3 billion. For such leases, the IFA is the lessor and INDOT is the lessee. INDOT is responsible for reporting information regarding the assessment condition and condition level of the road system funded through Highway Revenue Bonds.

> **Indiana Toll Road Lease** – Historically, the infrastructure assets related to the Indiana Toll Road were reported separate from IFA's reporting entity. The IFA reported an equity interest in the overall assets held by the Indiana Toll Road Project. During the current year, the IFA concluded its lease with INDOT, and leased the Indiana Toll Road to the Indiana Toll Road Concession Company, LLC for 75 years. With the inception of the new lease, the IFA liquidated it's equity interest in the Indiana Toll Road Project and took possession of infrastructure assets, land and land improvements, which approximated $216 million.

Capital Assets: Property and equipment used for IFA operations are land, bridges, buildings and equipment related to the following: the prior State Office Building Commission, the prior Recreational Development Commission, the Toll Bridge Fund, and the Indiana Toll Road Lease Fund. The State Office Building Commission assets have a cost basis of $1.118 billion and accumulated depreciation of $228 million. The total increase in the State Office Building Commission's investment is $15 million. Capital assets related to the Recreational Development Commission have a cost basis of $40 million and accumulated depreciation of $10 million.

(Continued)

Toll Bridge Fund capital assets have a cost basis of $0.7 million and accumulated depreciation of $0.1 million. Indiana Toll Road Lease Fund assets have a cost basis of $307 million and accumulated depreciation of $41 million. These assets were transferred to the IFA from the Indiana Toll Road Project when the Indiana Toll Road Lease was initiated.

Recreational Development Commission assets have decreased by $0.8 million over the prior year.

The IFA's investment in direct financing leases is presented on the Statement of Net Assets at $1.497 billion.

The IFA's investment in the Indiana Toll Road Project assets is valued at $6.8 million and represents remaining assets less liabilities of the Indiana Toll Road Project after the lease of the Indiana Toll Road on June 29, 2006. The asset value is impacted annually by the change in revenue over expenses of the Indiana Toll Road Project.

IFA
Capital and Infrastructure Assets (in millions of dollars)
June 30, 2006

	Governmental Activities	Business Activities	Total Activities
Capital Assets			
Property, plant and equipment, net			
State Office Building Commission	$ 890	$ -	$ 890
Recreational Development Commission	-	30	30
Toll Bridge Fund (less than 1 million)	-	-	-
Indiana Toll Road Lease Fund	-	266	266
Total	$ 890	$ 296	$ 1,186
Investment in direct financing leases:			
Aviation Technology Center Fund	$ -	$ 9	$ 9
Airport Facilities Fund	-	202	202
Highway Revenue Bonds	1,286	-	1,286
Total	$ 1,286	$ 211	$ 1,497

(Continued)

Long-term Debt Activity: Outstanding debt balances are presented as follows for governmental and business type activities:

Governmental Activities:

Long-term Debt	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Highway revenue bonds	$ 1,384,615,766	$ 2,409,076	$ 25,805,000	$ 1,361,219,842
State Office Building Commission bonds and notes	937,876,357	25,701,861	31,296,867	932,281,351
Stadium Financing bonds	-	400,000,000	-	400,000,000
	$ 2,322,492,123	$ 428,110,937	$ 57,101,867	$ 2,693,501,193

Business-Type Activities:

Long-term Debt	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Airport Facilities bonds	$ 204,550,000	$ -	$ -	$ 204,550,000
Aviation Technology Center bonds	9,285,000	-	560,000	8,725,000
State Revolving Fund bonds	1,443,836,278	225,809,775	39,987,926	1,629,658,127
Recreational Development Commission bonds	31,389,698	97,489	535,000	30,952,187
Toll Road Project bonds	198,725,941	-	198,725,941	-
	$ 1,887,786,917	$ 225,907,264	$239,808,867	$ 1,873,885,314

Long-term Lease Activity: Outstanding lease balances are presented as follows for governmental and business type activities:

Governmental Activities:

Long-term Lease	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Highway revenue bonds	$ 1,245,551,508	$ 66,481,039	$ 25,805,000	$ 1,286,227,547

Business-Type Activities:

Long-term Lease	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Airport facilities	$ 201,973,708	$ -	$ 102,406	$ 201,871,302
Aviation Technology Center	9,285,000	-	560,000	8,725,000
Toll Road Project	198,725,941	-	198,725,941	-
	$ 409,984,649	$ -	$199,388,347	$ 210,596,302

(Continued)

CURRENTLY KNOWN FACTS

Indiana Toll Road Lease: On June 29, 2006, the Indiana Toll Road was leased for $3.8 billion and a term of 75 years to the Indiana Toll Road Concession Company, LLC. The entire $3.8 billion was paid up front and there are no additional lease payments due for the remainder of the term. The IFA recorded the transaction as an operating lease and recorded the payment as deferred revenue. Lease rental revenue will be recognized on a straight-line basis over the life of the lease. As required by the legislation created by the General Assembly, the IFA transferred $3.6 billion of the proceeds to the State to fund the Major Moves initiative on July 5, 2006. The IFA recorded the $3.6 billion payment in FY 2006. The timing of the payment to the State and the recognition of expense caused a significant decrease in the IFA's net assets. For FY 2006, the IFA's net assets would have increased by $114 million without including the transfer to the State.

Guaranty Fund: The IFA was a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation and Heartland Steel, Inc. Both entities are a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code and the Bank of New York Trust Company, N.A. as successor to Bank One, Indiana, relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech) and Series 1998 (Heartland). For FY 2006, the Indiana General Assembly appropriated sufficient guaranty funds to pay Heartland and Qualitech bond and related payments. During the fiscal year ended June 30, 2006, the IFA recorded expenses for bond and related payments of $2,449,076 (Qualitech) and $940,558 (Heartland). On August 1, 2006, the Heartland and Qualitech bonds were completely re-paid and defeased and are no longer outstanding.

State Revolving Fund: The IFA issued new bonds to partially refund bond series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B and provide additional subsidized loans to program participants.

State Office Building Commission: Construction on the new State Forensic and Health Science Laboratories was completed on October 2, 2006. The IFA financed construction of the new facility with Hoosier Notes (tax-exempt commercial paper) but on October 3, 2006 issued $63 million in new bonds to payoff the Hoosier notes and the rest of the construction.

DISCLOSURE

These annual financial statements are not a disclosure document, an offering memorandum, an official statement or prospectus for any revenue bond issued by the IFA, and no investor should rely on it as such. The information contained in the annual financial statements is limited information. Information and any expression of opinion (other than the report of the independent auditors) contained in the annual financial statements are subject to change. Such information and any opinion (other than the report of independent auditors) speak only as of their date.

PART 2 – BASIC FINANCIAL STATEMENTS

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
ASSETS			
Current assets:			
Cash	$ 981,146	$ 2,197,416	$ 3,178,562
Investments	367,784,720	4,962,298,130	5,330,082,850
Securities lending collateral and receivable	6,837,948	-	6,837,948
Interest receivable on investments and loans	1,703,533	30,080,659	31,784,192
Lease income receivable	14,603,538	735,283	15,338,821
Grants and accounts receivable	190,866	31,913,195	32,104,061
Loans receivable	1,794,055	55,527,781	57,321,836
Interfund receivable	314,690	16,403	331,093
Investment in direct financing leases	33,137,849	4,522,618	37,660,467
Amount due from primary government	6,183,157	-	6,183,157
Interest held in assets of the Toll Road Project	-	6,817,190	6,817,190
Construction escrows	2,469,781	61,507	2,531,288
Total current assets	436,001,283	5,094,170,182	5,530,171,465
Noncurrent assets:			
Investments			-
Investment in direct financing leases	1,253,089,698	206,073,684	1,459,163,382
Loans receivable	406,631,179	1,119,316,708	1,525,947,887
Deferred charges, net	163,662	-	163,662
Unamortized bond issue cost, net	7,167,640	9,893,698	17,061,338
Capital assets, net	889,803,234	296,091,341	1,185,894,575
Total noncurrent assets	2,556,855,413	1,631,375,431	4,188,230,844
Total Assets	$ 2,992,856,696	$ 6,725,545,613	$ 9,718,402,309

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total Activities**
LIABILITIES AND NET ASSETS			
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$ 5,834,272	$ 4,243,342	$ 10,077,614
Interfund payable	272,026	59,067	331,093
Interest payable	37,771,116	31,443,809	69,214,925
Amount due to primary government	2,597,431	3,618,527,566	3,621,124,997
Deferred revenue	75,000	50,206,350	50,281,350
Revenue bonds payable - current	76,024,815	66,250,000	142,274,815
Hoosier Notes payable - current	59,190,000	-	59,190,000
Securities lending collateral and payable	6,837,948	-	6,837,948
Allowance for guaranty claims	321,000	-	321,000
Construction retention	2,309,273	61,509	2,370,782
Total current liabilities	191,232,881	3,770,791,643	3,962,024,524
Noncurrent liabilities:			
Revenue bonds payable	2,558,286,378	1,807,635,314	4,365,921,692
Note payable	864,380	-	864,380
Amount due to primary government	480,186	500,000	980,186
Amount due to federal government	292,184	333,000	625,184
Deferred revenue	2,925,000	3,715,269,966	3,718,194,966
Total noncurrent Liabilities	2,562,848,128	5,523,738,280	8,086,586,408
Total Liabilities	2,754,081,009	9,294,529,923	12,048,610,932
Net Assets			
Invested in capital assets, net of related debt	3,933,356	529,975	4,463,331
Restricted for:			
Debt service	152,322,026	7,877,506	160,199,532
Water pollution and drinking water projects	-	787,765,227	787,765,227
Unrestricted	82,520,305	(3,365,157,018)	(3,282,636,713)
Total net assets	238,775,687	(2,568,984,310)	(2,330,208,623)
Total Liabilities and Net Assets	$ 2,992,856,696	$ 6,725,545,613	$ 9,718,402,309

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
GOVERNMENT WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets Primary Governmenet		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating and Capital Grants**	**Governmental Activities**	**Business-Type Activities**	**Total**
Primary Government						
Governmental Activities:						
General Government	$ 188,488	$ 909,544	$ -	$ 721,056	$ -	$ 721,056
Business Development	4,687,041	525,697	7,040,506	2,879,162	-	2,879,162
Environmental	872,487	150,870	-	(721,617)	-	(721,617)
Transportation Finance	73,457,485	76,684,739	-	3,227,254	-	3,227,254
State Office Buildings Finance	73,899,879	104,382,143	-	30,482,264	-	30,482,264
Stadium and Convention Center Finance	8,988,219	8,988,219	-	-	-	-
Total Governmental Activities	162,093,599	191,641,212	7,040,506	36,588,119	-	36,588,119
Business-Type Activities:						
Drinking Water and Wastewater	72,666,104	37,480,283	33,283,045	-	(1,902,776)	(1,902,776)
Airport Facilities Finance	8,071,622	12,862,898	-	-	4,791,276	4,791,276
Toll Road Lease	3,617,520,040	-	-	-	(3,617,520,040)	(3,617,520,040)
Aviation Technology Center Finance	612,123	597,826	-	-	(14,297)	(14,297)
Toll Bridges	3,695,443	816,628	-	-	(2,878,815)	(2,878,815)
Toll Road Project	14,208,686	19,930,943	-	-	5,722,257	5,722,257
Recreation Development Finance	2,544,963	2,011,590	-	-	(533,373)	(533,373)
Total Business-Type Activities	3,719,318,981	73,700,168	33,283,045	-	(3,612,335,768)	(3,612,335,768)
Total Primary Government	$ 3,881,412,580	$ 265,341,380	$ 40,323,551	$ 36,588,119	$ (3,612,335,768)	$ (3,575,747,649)
		General Revenues				
		Investment earnings, net		$ 12,667,326	$ 59,719,224	$ 72,386,550
		Other Financing Sources				-
		Transfers		50,909	(50,909)	-
		Total General and Other Sources		12,718,235	59,668,315	72,386,550
		Change in net assets		49,306,354	(3,552,667,453)	(3,503,361,099)
		Net Assets- Beginning of year		189,469,333	983,683,143	1,173,152,476
		Net Assets - End of year		$ 238,775,687	$ (2,568,984,310)	$ (2,330,208,623)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	General	Other Governmental Funds	Totals
Assets			
Cash	$ 974,663	$ 6,483	$ 981,146
Investments	-	55,289,003	55,289,003
Securities lending collateral	-	6,820,881	6,820,881
Securities lending receivable	-	17,067	17,067
Interest receivable on investments	-	344,020	344,020
Interest receivable on loans	-	27,248	27,248
Accounts receivable	186,085	-	186,085
Amount due from primary government	7,194	-	7,194
Loans receivable, net	-	7,560,854	7,560,854
Interfund receivable	307,555	7,135	314,690
Total assets	$ 1,475,497	$ 70,072,691	$ 71,548,188
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued expenses	$ 232,168	$ 3,224	$ 235,392
Interfund payable	-	153,032	153,032
Amount due to primary government	22,273	811,992	834,265
Securities lending collateral	-	6,820,881	6,820,881
Securities lending payable	-	17,067	17,067
Allowance for guaranty claims	-	321,000	321,000
Total liabilities	254,441	8,127,196	8,381,637
Fund Balances			
Reserved:			
Business Development	-	7,521,753	7,521,753
Environmental	-	3,917,575	3,917,575
Unreserved:			
General Fund	1,221,056	-	1,221,056
Special revenue funds	-	43,814,328	43,814,328
Capital projects funds	-	6,691,839	6,691,839
Total fund balances	1,221,056	61,945,495	63,166,551
Total Liabilities and Fund Balances	$ 1,475,497	$ 70,072,691	$ 71,548,188

See accompanying notes to financial statements.

RECONCILIATION OF FUND FINANCIAL STATEMENTS BALANCE SHEET-GOVERNMENTAL FUNDS TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balances – governmental funds	$ 63,166,551
Amounts reported for governmental activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission and Stadium and Convention Center Financing are included in governmental activities in the statement of net assets.	175,609,136
Net assets of governmental activities	$ 238,775,687

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended June 30, 2006

	General	Other Governmental Funds	Totals
Revenues:			
State appropriations	$ -	$ 6,540,506	$ 6,540,506
Investment earnings, net	-	1,373,241	1,373,241
Interest on loans	-	141,477	141,477
Grant income	-	500,000	500,000
Financing fees and premiums	2,500	319,876	322,376
Other funding	907,044	215,214	1,122,258
Total revenues	909,544	9,090,314	9,999,858
Expenditures:			
General Government	188,488	-	188,488
Business Development	-	4,687,041	4,687,041
Environmental	-	872,487	872,487
Total expenditures	188,488	5,559,528	5,748,016
Excess of Revenues over Expenditures	721,056	3,530,786	4,251,842
Other Financing Sources:			
Transfers in (out)	500,000	(500,000)	-
Total other financing sources and uses	500,000	(500,000)	-
Net Change in Fund Balances	1,221,056	3,030,786	4,251,842
Fund Balances- Beginning	-	58,914,709	58,914,709
Fund Balances- Ending	$ 1,221,056	$ 61,945,495	$ 63,166,551

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENTS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

Net change in fund balances – governmental funds	$ 4,251,842
Amounts reported for governmental type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for Highway Revenue Bonds, State Office Building Commission and Stadium and Convention Center Financing are included in governmental activities in the statement of net assets.	45,054,512
Change in net assets of governmental activities	$ 49,306,354

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
ASSETS:					
Current assets:					
Cash	$ 569,784,822	$ -	$ 2,197,416	$ 571,982,238	$ -
Investments	624,323,284	3,745,756,514	20,043,459	4,390,123,257	314,885,768
Interest receivable on investments	14,993,748	1,026,809	81,677	16,102,234	1,206,251
Interest receivable on loans	13,874,652	-	103,773	13,978,425	126,014
Lease income receivable	-	-	735,283	735,283	14,603,538
Grants and accounts receivable	31,492,895	-	420,300	31,913,195	4,781
Loans receivable	54,699,467	-	828,314	55,527,781	864,380
Interfund receivable	-	-	-	-	16,403
Investment in direct financing leases	-	-	4,522,618	4,522,618	33,137,849
Amount due from primary government				-	6,175,963
Interest held in assets of the Toll Road Project	-	-	-	-	6,817,190
Construction escrows	-	-	-	-	2,531,288
Total current assets	1,309,168,868	3,746,783,323	28,932,840	5,084,885,031	380,369,425
Noncurrent assets:					
Investment in direct financing leases	-	-	206,073,684	206,073,684	1,253,089,698
Loans receivable	1,103,928,196	-	15,388,512	1,119,316,708	400,000,000
Unamortized bond issue cost	9,389,437	-	-	9,389,437	7,671,901
Deferred charges, net	-	-	-	-	163,662
Capital assets, net of accumulated depreciation	-	265,583,262	529,975	266,113,237	919,781,338
Total noncurrent assets	1,113,317,633	265,583,262	221,992,171	1,600,893,066	2,580,706,599
Total Assets	$ 2,422,486,501	$ 4,012,366,585	$ 250,925,011	$ 6,685,778,097	$ 2,961,076,024
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	$ 166,952	$ 4,057,811	$ 18,579	$ 4,243,342	$ 5,598,880
Interfund payable	53,259	-	-	53,259	124,802
Interest payable	30,025,939	-	735,283	30,761,222	38,453,703
Amount due to primary government	-	3,618,527,566	-	3,618,527,566	2,243,352
Deferred revenue	-	50,206,350	-	50,206,350	75,000
Revenue bonds payable - current	60,670,000	-	4,575,000	65,245,000	77,029,815
Hoosier Notes payable - current	-	-	-	-	59,190,000
Construction retention	-	-	-	-	2,370,782
Total current liabilities	90,916,150	3,672,791,727	5,328,862	3,769,036,739	185,086,334
Noncurrent liabilities:					
Revenue bonds payable	1,568,988,127	-	208,700,000	1,777,688,127	2,588,233,565
Note payable	-	-	-	-	864,380
Amount due to primary government	-	-	-	-	500,000
Amount due to federal government	333,000	-	-	333,000	292,184
Deferred revenue	-	3,715,269,966	-	3,715,269,966	2,925,000
Total Noncurrent Liabilities	1,569,321,127	3,715,269,966	208,700,000	5,493,291,093	2,592,815,129
Total Liabilities	1,660,237,277	7,388,061,693	214,028,862	9,262,327,832	2,777,901,463
Net Assets					
Invested in capital assets, net of related debt	-	-	529,975	529,975	3,933,356
Restricted for debt service	-	-	7,877,506	7,877,506	152,322,026
Restricted for water pollution and drinking water projects	762,249,224	-	25,516,003	787,765,227	-
Unrestricted	-	(3,375,695,108)	2,972,665	(3,372,722,443)	26,919,179
Total Net Assets	$ 762,249,224	$ (3,375,695,108)	$ 36,896,149	$ (2,576,549,735)	$ 183,174,561

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2006

Total net assets – enterprise funds	$(2,576,549,735)
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business type activities in the statement of net assets.	7,565,425
Net assets of business-type activities	$(2,568,984,310)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
For the year June 30, 2006

	Enterprise Funds				
	State Revolving Fund	Toll Road Lease Fund	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues:					
Lease rental income	$ -	$ -	$ 13,460,697	$ 13,460,697	$ 193,980,298
Interest on loans	36,992,165	-	461,118	37,453,283	8,988,219
Tolls	-	-	816,628	816,628	-
Financing fees and premiums	27,000	-	-	27,000	3,276,527
Other funding	-	-	27	27	30,333
Total operating revenue	37,019,165	-	14,738,470	51,757,635	206,275,377
Operating Expenses:					
Personal services	454,580	-	451,211	905,791	445,898
Nonpersonal services	15,779	-	150,899	166,678	1,072,866
Professional services	665,425	-	75,951	741,376	743,972
Supplies	5,800	-		5,800	4,466
Equipment and building fixtures	-	-	89,443	89,443	24,488
Travel	4,505	-		4,505	19,704
Interest expense	69,300,623	-	8,374,341	77,674,964	144,327,242
Depreciation expense and amortization	1,013,570	-	3,266	1,016,836	26,240,307
Grants	-	-	1,198,933	1,198,933	-
Administrative expenses	-	-	40,966	40,966	-
Other expense	-	-	-	-	220,289
Total operating expneses	71,460,282	-	10,385,010	81,845,292	173,099,232
Operating income (loss)	(34,441,117)	-	4,353,460	(30,087,657)	33,176,145
Nonoperating Revenues (Expenses):					
Investment earnings, net	59,573,082	19,282	86,343	59,678,707	11,334,602
Change in assets held by IFA, net of related costs - Toll Road Project	-	-	-	-	5,722,257
Transfer to INDOT	-	-	(3,200,000)	(3,200,000)	-
Distribution to primary government	-	(3,617,520,040)	-	(3,617,520,040)	-
Total nonoperating revenue (expenses)	59,573,082	(3,617,500,758)	(3,113,657)	(3,561,041,333)	17,056,859
Income (Loss) before Capital Contributions and Transfers	25,131,965	(3,617,500,758)	1,239,803	(3,591,128,990)	50,233,004
Capital contributions	33,283,045	-	-	33,283,045	-
Transfers in (out)	-	241,805,650	(50,908)	241,754,742	(241,754,742)
Change in Net Assets	58,415,010	(3,375,695,108)	1,188,895	(3,316,091,203)	(191,521,738)
Total Net Assets - Beginning	703,834,214	-	35,707,254	739,541,468	374,696,299
Total Net Assets - Ending	$ 762,249,224	$ (3,375,695,108)	$ 36,896,149	$ (2,576,549,735)	$ 183,174,561

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
RECONCILIATION OF FUND FINANCIAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the year June 30, 2006

Net change in net assets – enterprise funds	$(3,316,091,203)
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds for the Indiana Toll Road Project and the Recreational Development Commission are included in business type activities in the statement of net assets.	(236,576,250)
Change in net assets of business-type activities	$(3,552,667,453)

See accompanying notes to financial statements.

INDIANA FINANCE AUTHORITY
FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the year June 30, 2006

	Enterprise Funds				
	State Revolving Fund	**Toll Road Lease Fund**	**Other Enterprise Funds**	**Total**	**Internal Service Funds**
Cash Flows from Operating Activities					
Lease, rent and toll receipts	$ -	$ 3,806,532,967	$ 13,976,494	$ 3,820,509,461	$ 188,179,709
Other operating income	501,438	-	27	501,465	3,306,860
Payments for general and administrative expenses	(1,597,680)	(25,362,992)	(876,960)	(27,837,632)	(2,706,809)
Payments for grants	-	-	(1,619,233)	(1,619,233)	-
Reimbursement to INDOT for services	-	-	(3,200,000)	(3,200,000)	-
Liquidation of Interest in Toll Road	-	162,974,354	-	162,974,354	-
Net Cash Provided (Used) by Operating Activities	(1,096,242)	3,944,144,329	8,280,328	3,951,328,415	188,779,760
Cash Flows from Investing Activities					
Principal repayments of loans	49,855,891	-	1,142,970	50,998,861	43,000,000
Issuance of loans	(170,931,017)	-	(1,224,495)	(172,155,512)	(443,864,379)
Change in investments	(41,431,033)	-	-	(41,431,033)	-
Interest received on loans and investments, net	95,964,137	-	365,189	96,329,326	19,859,297
Purchase of property and equipment	-	-	-	-	(38,197,551)
Net Cash Provided (Used) by Investing Activities	(66,542,022)	-	283,664	(66,258,358)	(419,202,633)
Cash Flows from Non-Capital Financing Activities					
Proceeds from debt issuance	512,249,918	-	-	512,249,918	-
Principal payments to reduce indebtedness including refunding	(326,428,069)	-	-	(326,428,069)	-
Payment of debt issuance costs, net of refunding	794,313	-	-	794,313	-
Change in amount due to federal government	333,000	-	-	333,000	-
Interest paid on debt	(68,400,239)	-	-	(68,400,239)	-
Net Cash Provided (Used) by Non-Capital Financing Activities	118,548,923	-	-	118,548,923	-
Cash Flows from Capital Financing Activities					
Proceeds from debt issuance	-	-	-	-	
Principal payments to reduce indebtedness	-	(190,805,000)	(560,000)	(191,365,000)	469,119,501
Interest paid on debt	-	(7,582,815)	(8,073,510)	(15,656,325)	(100,636,867)
Capital lease principal receipts	-	-	662,406	662,406	(134,051,350)
Acquisition of capital assets	-	-	-	-	25,805,000
Expenditures of funds held for others	-	-	-	-	(71,142,362)
Capital contributions (EPA grants)	1,790,150	-	-	1,790,150	(5,375,415)
Net Cash Provided (Used) by Capital Financing Activities	1,790,150	(198,387,815)	(7,971,104)	(204,568,769)	183,718,507
Net Increase (Decrease) in Cash and Equivalents	52,700,809	3,745,756,514	592,888	3,799,050,211	(46,704,366)
Cash and Equivalents					
Beginning of Year	571,622,475	-	21,647,987	593,270,462	361,590,132
End of Year	$ 624,323,284	$ 3,745,756,514	$ 22,240,875	$ 4,392,320,673	$ 314,885,766
Cash and Equivalents					
Cash	$ -	$ -	$ 2,197,416	$ 2,197,416	$ -
Short-term Investments with original maturities of 60 days or less	624,323,284	3,745,756,514	20,043,459	4,390,123,257	314,885,766
	$ 624,323,284	$ 3,745,756,514	$ 22,240,875	$ 4,392,320,673	$ 314,885,766
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income	$ (34,441,117)	$ -	$ 4,353,460	$ (30,087,657)	$ 33,176,145
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Interest on loans	(36,992,165)	-	(461,118)	(37,453,283)	-
Interest expense	69,300,623	-	8,374,341	77,674,964	121,130,337
Amortization of deferred charges	1,013,570	-	-	1,013,570	1,038,667
Depreciation	-	-	3,266	3,266	25,201,640
Liquidation of Interest in Toll Road	-	162,974,354	-	162,974,354	-
Transfer for administrative reimbursement	-	-	(3,250,908)	(3,250,908)	50,908
Changes in assets and liabilities:					
Accounts receivable and other assets	-	-	(721,131)	(721,131)	5,529,020
Accounts payable and accrued expenses	22,847	-	(17,582)	5,265	(346,957)
Deferred revenue	-	3,781,169,975	-	3,781,169,975	3,000,000
	$ (1,096,242)	$ 3,944,144,329	$ 8,280,328	$ 3,951,328,415	$ 188,779,760

See accompanying notes to financial statements.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION

The accompanying financial statements of the Indiana Finance Authority (IFA) as of June 30, 2006, and for the fiscal year then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. The IFA's significant accounting policies are as follows:

Reporting Entity: IFA's primary purpose is to oversee State-related debt issuance and provide efficient and effective financing solutions to facilitate state, local government, and business investment in Indiana. IFA was constituted pursuant to changes made to Indiana Code 4-4-10 & 11 et seq., via Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235").

In order to provide economic efficiencies and management synergies and enable the State to communicate as one voice with the various participants in the financial markets, the Indiana Development Finance Authority (IDFA), the State Office Building Commission (SOBC), the Indiana Transportation Finance Authority (ITFA), State Revolving Fund Programs (SRF) and the Recreational Development Commission (RDC) were consolidated under the new Indiana Finance Authority on May 15, 2005 in PL 235. For purposes of comparison, the previously existing entities are reported in a way that may give the impression that they are still in existence. However, IDFA, SOBC, ITFA, and RDC are no longer existing legal entities.

IFA's primary programs include:

State Finance Programs: As the successor entity to these formerly separate debt issuing entities, IFA is authorized to issue revenue bonds payable from lease rentals under lease agreements with various state agencies and to finance or refinance the cost of acquiring, building and equipping structures for state use including state office buildings, garages, highways, bridges, airport facilities, correctional facilities, state hospitals, and recreational facilities related to State parks.

Business Finance Programs: The following are IFA business finance programs:

- Volume Cap - Indiana's $501 million capacity to issue private activity bonds, competitively awarded based on jobs created and/or retained, wages, capital investment, project location, dedication to low-income housing and other factors.

- Tax-Exempt Bond - Industrial revenue bonds, refunding bonds, 501(c)(3) bonds, and smaller bonds issued monthly.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

- Business Development – Programs such as Capital Access, Loan Guaranty, Broadband, Business Development Loan Fund, Rural and Agricultural Development Fund, and Shovel Ready.

Environmental Finance Programs: The following are IFA environmental finance programs:

- Indiana Brownfields Program - The Program offers financial, technical, legal and educational assistance to eligible entities involved in Brownfields redevelopment. IFA works in partnership with the U.S. Environmental Protection Agency and other Indiana agencies to assist communities in making productive use of their Brownfield properties.

- State Revolving Loan Fund (SRF) - The SRF Loan Program provides low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure.

Segment Reporting: Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. A segment is an identifiable activity reported as, or within, an enterprise fund or other reporting entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt.

For the benefit of stakeholders and to address accounting and reporting requirements commonly set forth in bond indentures, IFA has disclosed condensed segment information for all non-conduit debt financing activities regardless of their reporting treatment as enterprise funds or other types of funds, and treatment as major versus non-major in the body of the basic financial statements.

The basic financial statements include kinds of statements required by the Governmental Accounting Standards Board ("GASB") that present different financial views of the IFA:

- The first two statements are government wide financial statements that provide both long-term and short-term information about the IFA's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the IFA, reporting the IFA's operation in more detail than the government wide statements.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed. Please note the breakdown of the statements is required by GASB and for audited financial statement reporting only.

A. Government Wide Financial Statements Basis of Presentation: The IFA includes operating functions that conduct governmental activities and business-type activities, which collectively present a government wide summary of the financial position and activities of IFA. The Statement of Net Assets and the Statement of Activities display government wide information. The IFA government wide financial statements are divided into two categories:

- **Governmental activities** include Operating Account (General Funds), Stadium and Convention Center Financing, Business and Environmental Finance Special Revenue Funds, Indiana State Office Building Commission, Interstate Bridge Fund and Highway Revenue Bonds.

- **Business-type activities** include the State Revolving Fund, Airport Facilities Bonds, Aviation Technology Center Fund, Toll Bridge Fund, Indiana Toll Road Lease Fund, Recreational Development Commission, and Indiana Toll Road Project.

Although most internal service funds are associated with business-type activities, some of IFA's internal service funds have characteristics more closely associated with governmental activities. Internal service funds classified as governmental activities include the Highway Revenue Bonds, Stadium and Convention Center Financing, and State Office Building Commission.

B. Fund Financial Statements Presentation: These statements are reported in two categories: Governmental Funds and Proprietary Funds.

1) Governmental Funds - Governmental Funds report activities for the IFA and other State Agencies that support the overall State's basic services. Governmental funds include:

General Fund: The General Fund is used to account for IFA activities not required to be accounted for in another fund. Examples of activities accounted for within the General Fund include IFA operating budget activity, program service revenue and expenses, and certain some business and environmental finance programs, not included in special revenue funds or other fund types.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Special Revenue Funds: Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specified purpose. IFA's Special Revenue Funds include the following:

The **Capital Access Program (CAP) Fund** enables banks to make loans to Indiana businesses that may not meet traditional lending requirements. The foundation of CAP is the establishment of a reserve fund into which the borrower, bank, and IFA contribute. When a CAP loan is made, the borrower and the bank each deposit a small percentage of the loan (1.5% - 3.5%) into the bank's reserve fund, and IFA matches the combined payment. The reserve fund is available for the bank to use to cover any losses of any loans made by it under the CAP program.

The aggregate CAP cash balance includes IFA's matching payments on the aggregate of the borrowers and banks offset by the amount recorded as aggregate borrower and lender contributions to the CAP program. Because aggregate borrower and lender contributions to the CAP program exceeded the balance in the CAP cash accounts, there was no asset reported by IFA as of June 30, 2006.

The **Industrial Development Project Guaranty Fund (Guaranty Fund)** provides flexible loan guarantees to banks for various economic development projects. Indiana businesses that are unable to qualify for conventional financing can utilize IFA's loan guaranty programs for high tech, industrial, rural and agriculture development projects. Guarantees are not backed by the full faith and credit of the State. Payments of guaranty claims can be made only from the Guaranty Fund. At June 30, 2006, the IFA had outstanding loan guaranties aggregating $996,600 and no outstanding loan guaranty commitments.

The Allowance for Guaranty Claims of $321,000 represents amounts that management estimates to be adequate to provide for future claims resulting from borrower defaults on loans, bonds or equipment leases guaranteed by IFA pursuant to its Guaranty Program.

The **Business Development Loan Fund** is used for activities relating to the Business Development Loan Program. The primary purpose of the Business Development Loan Fund is to grant loans to qualified borrowers so that they may carry out an industrial development project consistent with the requirements of the related statute (4-4-11-16.5).

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION ((Continued)

The **Rural and Agricultural Development Fund** is used for activities relating to the Rural and Agricultural Program. The Fund's primary purpose is to create or retain employment within the State to benefit any agriculture enterprise or rural development project. The loan guaranty program offers guaranties on the principal deficiency on a loan, with a maximum guaranty amount not exceeding $300,000 for rural and agriculture projects.

The **Environmental Remediation Revolving Loan Fund (Brownfields Fund)** was created in 1997 by the General Assembly to facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues.

The **Petroleum Remediation Grant Incentive Fund** is a component of the Environmental Remediation Revolving Loan Fund that provides assistance to cities, towns, and counties in Indiana to complete remediation of petroleum contamination at Brownfield sites. IFA administers the program in conjunction with technical staff of the Indiana Department of Environmental Management ("IDEM").

The **Brownfields Cleanup Revolving Loan Fund** is a grant fund controlled by the Indiana Department of Environmental Management ("IDEM"), which was capitalized by an award from the United States Environmental Protection Agency ("EPA"). The purpose of the Fund is to establish a revolving loan within the grantee's organization, under a Cooperative Agreement with the EPA. The Fund is used solely to finance remediation activities at eligible Brownfield sites. Pursuant to a Memorandum of Understanding with IDEM, IFA serves as the Fund Manager for this program.

IFA has reported $210,874 of invested assets and $601,118 in loans receivable and a corresponding liability in the financial statements for $811,992 at June 30, 2006.

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Capital Project Funds: Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments. IFA's Capital Project Funds include the following:

The **Interstate Bridge Fund** was created to pay for the cost of interstate bridges and improvements to such bridges. This fund is held by the IFA and managed by INDOT for the IFA.

2) Proprietary Funds

Proprietary funds follow the economic resources measurement focus, which is concerned with the total resources necessary to operate a particular activity. Accordingly, these funds include capital assets and long-term debt that are not included in governmental funds**.** Proprietary funds include enterprise funds and internal service funds.

Enterprise Funds: Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities are reported as enterprise funds if any of the following criteria are met. Governments should apply each of these criteria in the context of an activity's principal revenue source:

- The activity is financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not solely from fees and charges of the activity.

- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges rather than taxes or similar revenues.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

IFA Enterprise Funds include:

State Revolving Fund Program reports on the Wastewater State Revolving Fund and Drinking Water State Revolving Fund programs. The federal Water Quality Act of 1987, as amended in 1996, authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State has established a public drinking water system program to provide financial assistance for eligible projects. Financial assistance includes making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems.

Supplemental Fund reports on low interest loans or grants provided to Indiana communities to improve drinking water and wastewater infrastructure.

Indiana Toll Road Lease Fund reports on the operating lease between IFA, as lessor, and Indiana Toll Road Concession Company LLC (ITRCC), as lessee, to manage and operate the Indiana Toll Road, as approved by certain legislation adopted by the Indiana General Assembly. The operating lease began on June 29, 2006 with a term of 75 years.

IFA owns the 157-mile highway, and leases it to ITRCC, which will operate from the existing Indiana Toll Road headquarters in Granger. IFA received a cash payment of approximately $3.8 billion upon closing of the lease agreement, and ITRCC will receive all tolls and concession revenues for the next 75 years.

Airport Facilities Lease Revenue Bonds report on the direct financing activities for airport or aviation related property or facilities referred to by the IFA as the Indianapolis Maintenance Center (IMC).

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Aviation Technology Center Lease Revenue Bonds report on the direct financing activities for airport or aviation related property or facilities referred to by the IFA as the Aviation Technology Center.

Toll Bridge Fund accounts for the net assets and operations of the Wabash River Toll Bridge. By statute, the IFA controls the Toll Bridge. However, INDOT is responsible for operation, maintenance and financial control and reporting for the Toll Bridge.

Internal Service Funds: Internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. IFA Internal Service Funds include:

Indiana Toll Road Project - The Indiana Toll Road Project was a lease between the IFA and INDOT to finance and operate the Indiana Toll Road. Separate reporting of the lease agreement was required and was done under the reporting entity entitled the Indiana Toll Road Project. The net assets of the Indiana Toll Road Project are owned by the IFA and reported as interest held in assets of the Indiana Toll Road Project on the Statement of Net Assets. The IFA and INDOT had specified responsibilities under the lease agreement. Indiana Toll Road Bonds were payable from lease rentals INDOT was obligated to pay under the Indiana Toll Road Lease. INDOT set and collected tolls sufficient to provide for operating expenses, major expense fund requirements and payment of base rent to the IFA in an amount sufficient for payment of debt service on the Bonds.

The Indiana Toll Road was leased to INDOT until June 29, 2006, when a subsequent lease was entered into between IFA and ITRCC. During the majority of Fiscal Year 2006, financing and operating the Indiana Toll Road Project was governed by a lease agreement between the IFA and INDOT. Activity related to the new lease is reported under the Indiana Toll Road Lease Fund.

Highway Revenue Bonds primary purpose is to finance construction of highway and bridge projects that are managed by INDOT. This fund reports on the direct financing activities and construction of such projects.

(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF FINANCIAL PRESENTATION (Continued)

Stadium and Convention Center Financing Program reports on the financing of the Indiana Stadium and Convention Center project managed by the Indiana Stadium and Convention Building Authority (ISCBA). IFA issued $400 million of lease revenue bonds (Stadium), $43 million of limited recourse promissory notes (Stadium), and $40 million of bond anticipation notes (Convention Center) to finance a portion of the construction projects. IFA then entered into a loan agreement with the ISCBA structured with a payment schedule to meet debt service requirements on the bonds.

The previously existing **State Office Building Commission's** primary purpose was to construct, equip and lease state facilities through revenue bonds as authorized by the Indiana General Assembly. This has now been transferred to the IFA. The facilities are leased to the Department of Administration of the State ("DOA") under use and occupancy agreements. The IFA has been authorized to issue debt obligations to provide funds for:

- Financing the implementation of the Indiana Government Center Master Plan

- Infrastructure and transportation facilities in its vicinity, certain correctional facilities and certain hospitals

- Financing the Indiana State Museum acquisition, design and construction costs

- Conducting projects to reduce energy consumption costs and other operating costs at qualified state owned institutions

The previously existing **Recreational Development Commission's** primary purpose was providing funds for projects involving Department of Natural Resources' properties. The Recreational Development Commission (the Commission) was created in 1973 by an Act of the General Assembly. Effective May 15, 2005, all powers and duties of the Commission were transferred to the Indiana Finance Authority under IC 4-4-10.9 & 11.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The government wide statements and the proprietary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues and certain grants and entitlements are recognized in the period when all applicable eligibility requirements have been met.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For IFA, “available” means collectible within one month of the Fiscal Year end. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

Fund Accounting: IFA debt financing agreements and indentures may require the use of specific funds or subfunds to account for the activities within a specific bond issue or other IFA activities. As a result, governmental and proprietary funds may have subfunds and accounts that are considered separate accounting entities for internal reporting purposes. The operations of each specific fund are accounted for with a separate set of self-balancing accounts. IFA uses the following subfund types as applicable for debt financing and indenture agreements:

- General Funds
- Expense Funds
- Lease Revenue Funds
- Debt Service Funds
- Debt Service Reserve Funds
- Replacement Reserve Funds
- Construction Funds (including interest and clearing accounts)

Application of Accounting Principles Generally Accepted in the United States: For proprietary fund statements, IFA applies (a) all applicable FASB pronouncements issued before December 1, 1989, and (b) those issued after that date, provided they do not contradict GASB pronouncements. For governmental fund statements, IFA applies GASB pronouncements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from estimates.

Reclassification: Certain prior Fiscal Year amounts have been reclassified to conform to the current Fiscal Year presentation.

Internal Balances and Activity Reporting in Government Wide Financial Statements: Transaction and balances are recorded as follows:

- **Between funds included in governmental activities** column - Eliminated within the governmental activities column.
- **Between funds included in business-type activities** column - Eliminated within the business-type activities column.
- **Between a fund included in governmental activities column and a fund included in the business-type activities column** - Internal balance; eliminate in the total primary government column.

Revenue Recognition: The primary revenues sources of IFA are accounted for as follows:

- State appropriations are made by the General Assembly on a biennial basis. Due to the uncertainty of allotment and release of appropriations, IFA records revenues when cash payments are received.
- Toll lease revenue is recognized on an accrual basis. (proprietary fund and government-wide statements)
- Direct financing lease revenue and operating lease revenue is recognized on an accrual basis. (proprietary funds government-wide statements)
- Investment earnings are recognized on an accrual basis for proprietary funds government-wide statements, and modified accrual basis for governmental funds.
- Loan interest income is recorded on a modified accrual basis for governmental funds and full accrual for proprietary funds and government-wide statements.
- Grant income is recognized on an accrual basis for proprietary funds government-wide statements, and modified accrual basis for governmental funds.
- Program revenue is recognized on an accrual basis for proprietary funds government-wide statements, and modified accrual basis for governmental funds.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other relevant policies related to revenues follow:

- Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizens as a whole. Program revenues are separately classified in three categories—(a) charges for services, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions.

- Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and interest on debt and depreciation on capital assets. Governmental fund transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. For proprietary funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

- IFA's policy is to apply externally restricted and reserved funds first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Expense Classification: Expenses have been classified using functional and activity classifications using direct costs and estimated indirect cost allocations based upon time allocation and benefit. Direct expenses (charges based on actual use) are not eliminated, whereas indirect expense allocations made in the funds are reversed (unless reported in the separate column).

Net Assets and Fund Balances**:** Net assets are displayed in three components:

- The Invested in Capital Assets component consists of property or infrastructure that the IFA acquired.

- The Restricted Net Assets component represents net assets with constraints placed on their use that are either (i) externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or (ii) imposed by law through constitutional provisions or enabling legislation, as defined in GASB Statement No. 46 - Net Assets Restricted by Enabling Legislation.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Unrestricted Net Assets component consists of net assets that do not meet the definition of the preceding two components. IFA has reserved fund equity in special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by IFA's governing body.

  Government Activities: The IFA has reserved fund equity in four special revenue funds for specific purposes as stated in appropriations from the Indiana General Assembly or as designated by the IFA's governing body:

  - The Guaranty Fund has a reserve of $1,609,253 to pay amounts due under the reimbursement agreements.

  - The Business Development Loan Fund has a reserve of $5,912,500 for current loan commitments.

  - The Environmental Remediation Revolving Loan Fund has a reserve of $3,301,499 for current loan and grant commitments.

  - The Petroleum Remediation Grant Fund has a reserve of $616,076 for current grant commitments.

<u>Cash and Equivalents:</u> Cash and equivalents include deposits in financial institutions and short-term investments with original maturities of 60 days or less.

<u>Investments</u>: Investments are recorded at fair value based on quoted market prices of the investment or similar investments. Changes in the fair value of investments, including interest, dividends, realized and unrealized gains and losses are included in the statements of activities. Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date, are valued at the last reported bid price.

<u>Capital Assets:</u> Capital assets are recorded at historical cost. Cost includes interest expense, net of interest income, incurred during construction until the asset is placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Infrastructure Assets: The Indiana Toll Road Lease Fund, an enterprise fund, adopted the modified approach for recording infrastructure under GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network (hereafter, eligible infrastructure assets) are not required to be depreciated. Condition assessments are performed annually and disclosed as required supplemental information. Expenditures that qualify as maintenance in nature are recorded by the lessee. Additions and improvements to eligible infrastructure assets are capitalized by IFA when those additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

Capital Leases: Direct financing leases are accounted for by IFA, as lessor, as the sum of minimum lease payments and indirect costs less unearned income. Direct costs and unearned income are amortized over the lease term using the interest rate method that mirrors the underlying long-term debt.

Grants and accounts receivable: Grants and accounts receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Grants and accounts receivable are recorded at net realizable value when earned. Grant revenue is recognized as earned as the eligible expenses are incurred or activities are completed. Grant expenditures are subject to audit and acceptance by the granting agency and, because of such audit, adjustments could be required.

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews grants and accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance is necessary at June 30, 2006.

Loans Receivable and Allowance for Loans: Loans are carried at the principal amount outstanding. Interest income is accrued on the principal balances of loans. IFA's sources of funding for loans are from state appropriations and grants. Because there are a small number of significant loans outstanding, management estimates the allowance for loan loss by identifying specific troubled loans. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that as of June 30, 2006, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the areas that funds are loaned would increase the likelihood of additional losses because of credit and market risks and could create the need for additional loss allowance.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Lease Revenue: Operating lease cash receipts that have not been earned are recorded as deferred lease revenue and amortized as earned over the life of the lease agreement on a straight-line basis. The primary deferred lease revenue related to the Indiana Toll Lease Program cash receipt of $3.8 billion from ITRCC that will be earned over the 75-year operating lease.

Due to/from Primary Government: This represents amounts that were due to the State at June 30, 2006 as follows

	Governmental Activities	Business-type Activities
Assets - Due from primary government		
Current:		
Due from Indiana Economic Development Corp	$ 6,914	$ -
Due from Office of Management and Budget	280	-
Integrated Public Safety Commission (IPSC)	6,175,963	-
	$ 6,183,157	$ -
Liabilities - Due to primary government		
Current:		
Major Moves Initiative - State Treasurer	$ -	$3,618,527,566
Highway Revenue funds - INDOT	2,169,937	-
Hoosier Safe-T Project - IPSC	73,415	-
BCRLF funds - IDEM	331,806	-
Due to Office of Management and Budget	22,273	-
Noncurrent:		
BCRLF funds – IDEM	480,186	
Loan from Cigarette Tax Fund	-	500,000
	$ 3,077,617	$3,619,027,566

Long-term Debt: Bonds and notes payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

Bond Discount and Issuance Costs: Bond discount and issuance costs are amortized using the interest method over the varying terms of the bonds issued.

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave, which has been earned but not paid, has been accrued in the accompanying financial statements. Compensation for holiday and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts either do not accumulate or vest.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS

Investment Guidelines and Limitations: The following are the significant investment guidelines and limitations related to IFA deposits and investments.

1) Policy Standards and Objectives - In its investment policy, the IFA adopted the prudent investor standard to apply to the IFA and to govern all its investments. This standard provides that an investor, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

Within these governing statutes, the IFA has broad authority to invest the assets. IFA has chosen these policies as the most appropriate policies to achieve the objectives listed below. This policy applies to bond proceeds, gross revenues and other funds for which the IFA and appropriate trustee(s) have investment responsibility. The authority to operate and manage the investment program for all funds is granted to approved signatories of IFA. The Chief Financial Officer in conjunction with the Public Finance Director shall establish controls and procedures to implement this program, which shall include regular reporting to the IFA members.

The primary objectives, in priority order, of the IFA's investment program are:

- Safety -- Safety of principal shall be the foremost objective of the investment program. Investments shall be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk will be minimized by diversification and by limiting investments to the safest types of securities. Market risk will be minimized by structuring the portfolio so that securities mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity, and by investing primarily in shorter-term securities.

- Liquidity -- The investment portfolio shall be structured so that investments mature concurrent with anticipated cash demand. Further, since all cash demands cannot be anticipated, the portfolio shall consist primarily of cash equivalents and securities with active secondary or resale markets.

- Yield -- The investment portfolio shall be structured with the objective of attaining a market rate of return taking into account the constraints of risk and liquidity describe above. Return on investment is less important than safety and liquidity. Return on investment should be in excess of inflation.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

2) Allowable Investments – Allowable investment information follows:

A. The IFA is only permitted to invest in securities authorized by the applicable trust indenture which authorizations are made a part of this policy. This policy only relates to the investment of cash within bond indentures to the extent it is not invested in purpose investments, i.e. long-dated United States Treasury Securities required under the Indenture or by the IRS. It is the policy of the IFA to limit allowable investments to the following list of securities.

- United States Government Securities
  - Treasury Notes and Bills
  - Treasury Bonds

- Unites States Agency Obligations
  - Government National Mortgage Association (GNMA)
  - Farmers Home Administration (FmHA)
  - Small Business Administration (SBA)
  - General Services Administration (GSA)
  - Federal Housing Administration (FHA)
  - Housing and Urban Development (HUD)
  - Financial Assistance Corporation (FAC)
  - Student Loan Marketing Association (SLMA)
  - Tennessee Valley Authority (TVA)
  - Including any securities with full faith and credit of the US Government

- United States Instrumentality Obligations
  - Federal National Mortgage Association (FNMA)
  - Federal Home Loan Banks (FHLB)
  - Federal Home Loan Mortgage Corporation (FHLMC)
  - Federal Farm Credit Banks (FFCB)
  - Federal Land Bank (FLB)
  - Instrumentality obligations must be in the two highest Moody's rating categories

- Obligations of States of the United States or their subdivisions - rated in the highest long-term rating category by Moody's

- Institutional Money Market Mutual Funds:
  - Seeks to maintain a net asset value of $1.00 per share,
  - are "no load", (meaning no commission or fee shall be charged on purchases or sales of shares)

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- Limit assets of the fund to U.S. Treasury securities, Federal Instrumentality securities, and repurchase agreements collateralized by the same, or are AAA rated
- Have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7

- Commercial Paper rated in the highest rating category by Moody's, with a maturity not to exceed 270 days

- Repurchase Agreements: Permitted collateral shall be:
  - Bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities, or establishments
  - Mortgage-backed securities sponsored by agencies of the Government of the United States
  - Corporate obligations of domestic and foreign issuers with a minimum rating of Aa3 by Moody's Investor Services, Inc. ("Moody's")
  - Asset-backed securities with a minimum rating of Aa3 by Moody's or money market instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's)
  - A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the Fund is fully collateralized

- Investment Agreements: Security, or debt related to agreement,
  - and qualified institution must both be rated at least Aa3 if greater than 24 months until maturity.
  - Moody's rating of P1 for those less than 24 months until maturity.

- Time Certificates of Deposit with maturities not exceeding five years, in state or nationally chartered banks whose deposits are insured by the Federal Deposit Insurance Corporation and do not exceed $100,000.

B. Additional securities allowable under the appropriate trust indenture may be added to the approved list with the recommendation of the Chief Financial Officer and approval of the Public Finance Director. All such additions shall be reported to and approved by the IFA members at the next regular meeting.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

C. It is the policy of the IFA that investments are not permitted in certain derivatives, or in certain mutual funds, which invest primarily in such securities. Investments prohibited by this policy are characterized as being illiquid, highly volatile and difficult to value. Prohibited securities include, but are not limited to, mortgage derivatives such as Z-bonds, PAC-2s, and Re-REMICS

D. It is the policy of IFA pursuant to IC 4-4-11-15(50) to allow for the use of certain swap agreements (as defined in IC 8-9.5-9-4) as part of their bond issuance pursuant to the guidelines of IC 8-9.5-9-5 and IC 8-9.5-9-7 (Appendix E). These agreements include a rate swap agreement, basis swap, forward rate agreement, interest rate option, rate cap agreement, rate floor agreement, rate collar agreement, or any other similar agreement (including any option to enter into any of the agreements described above).

3) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. IFA's Investment Policy Statement includes the following provisions:

- Maximum Maturities - to the extent possible, investments will be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, the IFA will not directly invest in securities maturing more than five years from the date of purchase.
- Average Maturity -- The average weighted maturity of the portfolio should not exceed two years.

At June 30, 2006, IFA had the following investments and maturities:

		Investment Maturities (in years)			
Governmental Type Activities:		Less than	One to	Six to	Greater than
Investment Type	Fair Value	One Year	Five Years	Ten Years	Ten Years
Money Market Investment	$ 326,687,440	$ 326,687,440	$ -	$ -	$ -
U.S. Treasury	6,658,051	6,658,051	-	-	-
Government Obligations	28,100,768	2,697,585	23,232,233	1,233,200	937,750
Repurchase Agreements	6,246,781	6,246,781	-	-	-
Preferred Stock	91,680	91,680	-	-	-
Total	$ 367,784,720	$ 342,381,537	$ 23,232,233	$ 1,233,200	$ 937,750

		Investment Maturities (in years)			
Business Type Activities:		Less than	One to	Six to	Greater than
Investment Type	Fair Value	One Year	Five Years	Ten Years	Ten Years
Money Market Investment	$ 4,392,513,310	$ 4,392,513,310	$ -	$ -	$ -
U.S. Treasury	7,289,000	-	-	2,905,000	4,384,000
Guaranteed Investment Contracts	562,495,822	-	-	45,359,808	517,136,014
Total	$ 4,962,298,132	$ 4,392,513,310	$ -	$ 48,264,808	$ 521,520,014

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

4) Custodial Credit Risk

Custodial credit risk is the risk that the IFA will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of IFA, and are held by either the counterparty of the counterparty's trust department of agent but not in IFA's name.

IFA's Investment Policy Statement includes the following provisions

- Securities purchased from any bank or dealer, including collateral when appropriate, shall generally be placed with the appropriate trustee or with an independent third party for safekeeping.
- Any security that is wireable over the FedWire will be safe kept in a customer or trust account in a Federal Reserve Bank through the appropriate custodial bank.
- Non-FedWirable securities held by the Depository Trust Corporation (DTC) shall be held in the name of the IFA or trustee through the appropriate custodial bank. Securities may be held by a broker/dealer to the extent the broker/dealer serves as an agent for the IFA or the appropriate trustee. No securities will be held by a broker/dealer without evidence of adequate Securities Investor Protection Corporation (SIPC) insurance (or protection judged to be equivalent by the IFA or the appropriate trustee).
- Delivery vs. Payment -- All securities will be held in accounts in the name of the IFA or the appropriate trustee. Securities will be deposited prior to release of funds. Securities held by a third party custodian will be evidenced by safekeeping receipts.

There was no custodial credit risk for investments.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

5) Credit Risk

IFA's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations at June 30, 2006 are as follows:

Governmental Type Activities:

Investment Type	S & P	Moodys	Fitch	Fair Value
Money Market Investment	unrated	unrated	unrated	$ 326,687,440
U.S. Treasury Bills	AAA	Aaa	AAA	6,658,051
Government Obligations	AAA	Aaa	AAA	26,904,192
	unrated	unrated	AA-	996,560
	unrated	unrated	unrated	200,016
Repurchase Agreements	unrated	unrated	unrated	6,246,781
Preferred Stock	AAA	Aaa	AAA	91,680
				$ 367,784,720

Business Type Activities:

Investment Type	**S & P**	**Moodys**	**Fitch**	**Fair Value**
Money Market Investment	unrated	unrated	unrated	$ 4,392,513,310
U.S. Treasury Bills	AAA	Aaa	AAA	7,289,000
Guaranteed Investment Contracts	AA1	Aa-	AA+	32,621,513
	AA2	Aa-	AA+	5,708,487
	unrated	AA2	AA	362,043,713
	unrated	unrated	AAA	162,122,109
				$ 4,962,298,132

6) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under IFA's Investment Policy Statement, Investments shall be diversified by type of security and institution. Except for cash equivalents, Indenture purpose investments, and United States Government Securities, the total portfolio shall consist of no more than (approximately) 40% of any single type of security. At June 30, 2006, there were no concentrations of credit risk.

7) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments are not included as allowable investments per IFA's policy. There was no foreign currency risk exposure at June 30, 2006.

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

8) Securities Lending

The Interstate Bridge Fund had investments in United States Treasury Bills held and controlled by the State Treasurer, which is used in securities lending transactions. The State Treasurer is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. The collateral securities cannot be pledged or sold by the State Treasurer unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with custodians require them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.
At June 30, 2006, the investments had no credit risk exposure on securities lending.

9) Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the State Treasurer of State, totaling $2,136,271, are entirely insured. The carrying amount of demand deposits was $1,042,291, and bank balances were $1,426,021. IFA's maximum risk was $1,260,948 at June 30, 2006.

(Continued)

NOTE 4 - LOANS RECEIVABLE

The IFA has four programs that provide loans to qualified participants including:

Governmental Activities:

1) Environmental Remediation Revolving Loan Fund (Brownfields) – Loans facilitate economic development and environmental remediation for inactive or abandoned industrial or commercial property upon which redevelopment is difficult due to environmental issues. Net loans receivable were $5,455,152 at June 30, 2006.

2) Business Development Loan Fund - Loans are provided for industrial development projects. Net loans receivable were $1,508,319 at June 30, 2006.

Business-Type Activities:

3) State Revolving Fund Loan Program - Low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure**.** Net loans receivable were $1,158,627,663 at June 30, 2006.

4) Supplemental Fund - Low interest loans provided to Indiana communities to improve drinking water and wastewater infrastructure. Net loans receivable were $16,216,826 at June 30, 2006.

Additional disclosures are provided below for each loan program:

1) Environmental Remediation Revolving Loan Fund (Brownfields)

Loans receivable were comprised of the following at June 30, 2006:

Loans receivable - gross	6,691,807
Less: allowance for forgivable portion of Brownfield loans	(1,236,655)
	$ 5,455,152

There were approximately 30 loans and advances outstanding with Indiana municipalities at June 30, 2006. Outstanding loan commitments to two municipalities were approximately $950,000. Interest earned on these loans during the year ended June 30, 2006 was approximately $101,000 and accrued interest was approximately $23,000 at June 30, 2006. The program includes a partially forgivable loan program with certain eligibility requirements. Eligible participants have a provision for forgiveness of up to 20% of the original loan balance if certain performance criteria are met. IFA has recorded an allowance that represents the current amount available for forgiveness on loans that qualified under the program.

(Continued)

NOTE 4- LOANS RECEIVABLE (Continued)

2) Business Development Loan Fund

Loans receivable under the Business Development Loan Fund were comprised of the following at June 30, 2006:

Midwest Independent Transmission System Operator, Inc

On September 7, 2004, IFA advanced a new partially forgivable $2,000,000 loan under a promissory note to Midwest Independent Transmission System Operator, Inc. ("MISO") in conjunction with a significant economic development and expansion project at MISO's headquarters in Carmel, Indiana. A provision of the note allows $500,000 to be forgiven if certain performance criteria are met. Achievement of performance criteria are measured annually on or before December 31. The note is secured by certain assets of the borrower. The Indiana Department of Commerce, now the Indiana Economic Development Corporation, committed to fund $500,000 of this advance through an appropriation to IFA. The note is payable in quarterly installments of $43,631, including interest at 3%, from January 1, 2005 to October 1, 2014.

Loan receivable	1,770,819
Less: allowance for forgivable portion of loans	(500,000)
	$ 1,270,819

Interest earned on these loans during the year ended June 30, 2006 was approximately $41,000, and accrued interest was $500 at June 30, 2006.

The loans include a partially forgivable portion with certain eligibility requirements. IFA has recorded an allowance of $500,000, which represents the current amount available for forgiveness on loans that qualified but have not met the performance criteria under the program. Due the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2006 beyond the forgivable portion of the loans.

Indiana Seed Fund I, LLC

In October 2004, IFA made a commitment to loan up to $3,000,000 from the Business Development Loan Fund to Indiana Seed Fund I, LLC, to permit the borrower to fund seed capital equity investments in early stage companies headquartered in Indiana. The Indiana Seed Fund I is to be managed by BC Advisors, LLC, or another affiliate of BC Initiatives, Inc. The loan accrues interest at 1%, but under loan documents, IFA will be entitled to receive additional consideration under certain circumstances.

(Continued)

NOTE 4- LOANS RECEIVABLE (Continued)

The loan draws mature October 13, 2019.

Loan receivable	$ 237,500
Less: allowance for uncollectible loans	-
	$ 237,500

Management has estimated that no allowance for uncollectible loans was necessary at June 30, 2006.

3) State Revolving Fund Loan Program

The loans receivable balance at June 30, 2006 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

Wastewater Fund	$ 970,432,561
Drinking Water Fund	188,195,102
	$ 1,158,627,663

These amounts represent projects that have been submitted and approved by the SRF Programs, and the loans have been closed. Interest earned on loans receivable was approximately $37,000,000 during the year ended June 30, 2006 and accrued interest on loans was approximately $13,900,000 at June 30, 2006. Due the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2006.

4) Supplemental Fund

Loans receivable were comprised of the following at June 30, 2006:

Loans receivable - gross	$ 16,216,826
Less: allowance for uncollectible loans	-
	$ 16,216,826

There were approximately 50 loans and advances outstanding with Indiana municipalities for drinking water and wastewater projects at June 30, 2006. Interest earned on these loans during the year ended June 30, 2006 was approximately $461,000 and accrued interest was approximately $104,000 at June 30, 2006.

Due the nature of the financing under the loans, management has estimated that no allowance for uncollectible loans was necessary at June 30, 2006.

(Continued)

NOTE 5 - CAPITAL ASSETS

Capital assets used in governmental activities included the following for the State Office Building Commission Program:

	Balance at July 1, 2005	Increases	Decreases	Balance at June 30, 2006
Capital assets, not being depreciated				
Land	54,807,366	-	-	54,807,366
Infrastructure	-	-	-	-
Construction in progress	95,448,000	36,316,171	-	131,764,171
Total capital assets, not being depreciated	150,255,366	36,316,171	-	186,571,537
Capital assets being depreciated:				
Buildings and improvements	928,119,000	2,779,877	-	930,898,877
Furniture, machinery and equipment	358,000	3,381	-	361,381
Total capital assets, being depreciated	928,477,000	2,783,258	-	931,260,258
Less accumulated for:				
Buildings and improvements	203,385,000	24,287,434	-	227,672,434
Furniture, machinery and equipment	353,000	3,127	-	356,127
Total accumulated depreciation	203,738,000	24,290,561	-	228,028,561
Total capital assets being depreciated, net	724,739,000	(21,507,303)	-	703,231,697
Capital assets, net	$874,994,366	$ 14,808,868	$ -	$ 889,803,234

(Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

Capital assets used in business-type activities included the following for the Toll Bridge Fund, Indiana Toll Road Lease Program, and Recreational Development Commission Program:

	Balance at July 1, 2005	Increases	Decreases	Balance at June 30, 2006
Capital assets, not being depreciated				
Land	$ 2,500,000	$ 28,223,770	$ -	$ 30,723,770
Infrastructure	496,266	209,242,620	-	209,738,886
Construction in progress	10,067,976	136,664	-	10,204,640
Total capital assets, not being depreciate	13,064,242	237,603,054	-	250,667,296
Capital assets being depreciated:				
Buildings and improvements	27,579,217	69,336,877	-	96,916,094
Furniture, machinery and equipment	87,767	43,813,210	(43,813,210)	87,767
Total capital assets, being depreciated	27,666,984	113,150,087	(43,813,210)	97,003,861
Less accumulated for:				
Buildings and improvements	9,358,895	42,133,154	-	51,492,049
Furniture, machinery and equipment	85,627	26,342,277	(26,340,137)	87,767
Total accumulated depreciation	9,444,522	68,475,431	(26,340,137)	51,579,816
Total capital assets being depreciated, net	18,222,462	44,674,656	(17,473,073)	45,424,045
Capital assets, net	$ 31,286,704	$ 282,277,710	$ (17,473,073)	$ 296,091,341

At June 30, 2006, the IFA had construction and related cost commitments as follows:

Governmental Activities:

State Office Building Commission – Commitments related to state facility capital assets were $6,900,000 for the State Forensic and Health Sciences Laboratories.

Highway Revenue Bonds – Construction contract commitments were approximately $68,900,000 for direct finance lease projects financed with proceeds of Series 2003A and 2004A.

Business-Type Activities:

Indiana Toll Road Lease Fund – Commitments related to the Indiana Toll Road were approximately $19,500,000 for road and bridge projects and $630,000 for environmental remediation projects.

NOTE 6 - CAPITAL LEASES

The IFA's future minimum lease amounts receivable under capital leases were as follows:

Governmental Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2007	$ 33,137,850	$ 69,562,664	$ 102,700,514
June 30, 2008	34,609,276	67,977,553	102,586,829
June 30, 2009	35,744,782	66,396,676	102,141,458
June 30, 2010	37,878,587	64,463,172	102,341,759
June 30, 2011	39,813,679	66,491,939	106,305,618
2012 - 2016	230,327,927	299,170,184	529,498,111
2017 - 2021	282,911,317	219,682,496	502,593,813
2022 - 2026	362,609,643	129,365,200	491,974,843
2027 - 2029	263,309,645	29,288,538	292,598,183
	1,320,342,706	1,012,398,422	2,332,741,128
Less remaining accretion / premium (discount)	(34,115,158)	-	(34,115,158)
	$ 1,286,227,548	$ 1,012,398,422	$ 2,298,625,970

Business-type Activities:

	Principal	Interest	Future Minimum Lease Receipts
June 30, 2007	$ 4,522,618	$ 12,650,614	$ 17,173,232
June 30, 2008	13,720,829	12,390,233	26,111,062
June 30, 2009	14,337,972	11,569,728	25,907,700
June 30, 2010	14,999,460	10,711,032	25,710,492
40724	15,695,620	9,811,398	25,507,018
2012 - 2016	87,859,913	34,148,339	122,008,252
2017 - 2019	59,459,892	7,204,186	66,664,078
	$ 210,596,304	$ 98,485,530	$ 309,081,834

NOTE 6 - CAPITAL LEASES (Continued)

IFA's changes in capital leases were as follows based on type of activity:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Amounts Due Within One Year	Amount Due Thereafter
Governmental Activity						
Highway Revenue Bonds	$ 1,245,551,508	$ 66,481,040	$ 25,805,000	$ 1,286,227,548	$ 33,137,850	$ 1,253,089,698
Business-Type Activity						
Airport Facilities	201,973,708		102,406	201,871,302	3,947,618	197,923,684
Aviation Technology Center	9,285,000	-	560,000	8,725,000	575,000	8,150,000
Toll Road Project	198,725,941	-	198,725,941	-	-	-
	409,984,649	-	199,388,347	210,596,302	4,522,618	206,073,684
Total	$ 1,655,536,157	$ 66,481,040	$ 225,193,347	$ 1,496,823,850	$ 37,660,468	$ 1,459,163,382

Capital lease interest rates are structured based on the related bonds principal and interest schedules that are reflected in Note 7 of the financial statements for each bond issue.

Highway Revenue Bonds

The IFA issues its highway revenue bonds to finance and refinance highway and bridge projects, as follows:

- INDOT leases right-of-way and other property, on which a highway or bridge project is to be situated, to the IFA under a ground lease agreement and supplement for the particular project.
- INDOT constructs the project for the IFA under a construction agreement and supplement for the particular project.
- Once constructed, IFA leases the project to INDOT under a master lease agreement and supplement for the particular project.

Lease payments made by INDOT under the master lease and supplements are used to pay debt service on the highway revenue bonds when due.

Under the construction and other agreement and supplements for the highway and bridge projects, the IFA reimburses INDOT for construction and design costs incurred by INDOT. Costs not yet reimbursed are recorded in the construction fund as accrued expenses. $55.0 million of construction and design costs were recognized as additions to capital leases and capital outlay reimbursements to INDOT during Fiscal Year 2006.

(Continued)

NOTE 6 - CAPITAL LEASES (Continued)

Airport Facilities

To finance the construction of the Indianapolis Maintenance Center ("IMC") at Indianapolis International Airport, the IFA, the City of Indianapolis (the "City") and the Indianapolis Airport Authority (the "IAA") entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

Under the Joint Venture, the IFA's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of the IFA's revenue bonds issued to finance the IMC. The City's and the IAA's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

The IFA leases its undivided interest in the IMC to the IAA. Upon termination of that lease, the IAA will succeed to the IFA's interest in the Joint Venture. The IAA is obligated to pay the IFA lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay IFA expenses and ground rent obligations. The IAA expects to pay the lease rentals through appropriations made by the General Assembly.

Aviation Technology Center

The Aviation Technology Center Lease Revenue Bonds were issued to finance and refinance an aviation technology education center at the Indianapolis International Airport. The center is used by Vincennes and Purdue universities to provide a variety of aviation-related post secondary education programs. The IFA leases the center to IAA under a lease agreement. IAA is obligated to pay to the IFA lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay IFA expenses and ground rent obligations. IAA expects to pay the lease rentals through appropriations made by the General Assembly. IAA is not obligated to use any other revenue to pay such lease rentals. The IFA leases the ground on which the center is situated from the IAA under a ground lease agreement. Upon termination of the ground lease agreement, the center will become property of the IAA.

Indiana Toll Road Project

The IFA leased the Indiana Toll Road Project to INDOT under a lease agreement, which required INDOT to operate and maintain the Indiana Toll Road Project in an efficient and economical matter. INDOT was obligated to collect tolls and other revenue sufficient to pay operating expenses, major (capital) expenses and debt service on the Indiana Toll Road Bonds. This lease was terminated prior to June 30, 2006.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY

During the Fiscal Year ended June 30, 2006, the debt service requirements for bonds payable under governmental and business activities were as follows:

Governmental Activities:

	Highway Revenue	State Office Building Commission	Stadium Project	Governmental Total
Principal:				
June 30, 2007	$ 35,020,000	$ 100,194,815	$ -	$ 135,214,815
June 30, 2008	36,575,000	44,486,537	-	81,061,537
June 30, 2009	37,775,000	49,359,076	-	87,134,076
June 30, 2010	40,030,000	49,895,000	-	89,925,000
June 30, 2011	42,075,000	53,135,000	-	95,210,000
2012 - 2016	243,410,000	296,515,000	-	539,925,000
2017 - 2021	298,980,000	236,225,000	13,000,000	548,205,000
2022 - 2026	383,205,000	87,510,000	31,950,000	502,665,000
2027 - 2031	278,265,000	13,400,000	146,425,000	438,090,000
2032 - 2035	-	-	208,625,000	208,625,000
	1,395,335,000	930,720,428	400,000,000	2,726,055,428
Remaining accretion / premium (discount)/ loss on advanced refunding	(34,115,158)	1,560,923	-	(32,554,235)
	$ 1,361,219,842	$ 932,281,351	$ 400,000,000	$ 2,693,501,193
Interest:				
June 30, 2007	$ 69,562,664	$ 45,022,454	$ 16,177,777	$ 130,762,895
June 30, 2008	67,977,551	43,116,817	16,177,777	127,272,145
June 30, 2009	66,396,676	40,792,576	16,587,931	123,777,183
June 30, 2010	64,463,173	38,256,117	17,548,072	120,267,362
June 30, 2011	66,491,939	35,534,493	17,169,633	119,196,065
2012 - 2016	299,170,184	131,258,630	85,757,667	516,186,481
2017 - 2021	219,682,496	57,785,044	85,309,505	362,777,045
2022 - 2026	129,365,200	10,789,652	80,438,525	220,593,377
2027 - 2031	29,288,538	678,250	67,755,567	97,722,355
2032 - 2035	-	-	23,262,311	23,262,311
	$ 1,012,398,421	$ 403,234,033	$ 426,184,765	$ 1,841,817,219
Total Debt Service	$ 2,373,618,263	$ 1,335,515,384	$ 826,184,765	$ 4,535,318,412

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

IFA has issued variable rate bond anticipation notes for the Convention Center Expansion Project mature no later than August 1, 2009. They are secured by a loan agreement with the ISCBA. The notes allow for draw down of up to $40,000,000. As of June 30, 2006, draws amounted to $864,380. The interest rate range was 3.80% - 4.65%. The bond anticipation note is not included in the governmental activities debt service requirements above.

The plan of financing for the outstanding bond anticipation note is to issue lease appropriation bonds similar to the Stadium Project. IFA has entered into a financing agreement that permits the IFA to refinance the short-term obligation on a long-term basis on terms that are readily determinable, and the agreement does not expire within one year and no violations of the financing agreement have occurred.

Business-type Activities:

	Enterprise				Internal Service	
	Airport Facilities	Aviation Technology Center	State Revolving Program Fund	Total	Recreational Development Commission	Business-type Total
Principal:						
June 30, 2007	$ 4,000,000	$ 575,000	$ 60,670,000	$ 65,245,000	$ 1,005,000	$ 66,250,000
June 30, 2008	13,300,000	595,000	67,640,000	81,535,000	1,465,000	83,000,000
June 30, 2009	13,900,000	620,000	69,640,000	84,160,000	1,830,000	85,990,000
June 30, 2010	14,550,000	640,000	79,600,000	94,790,000	1,940,000	96,730,000
June 30, 2011	15,225,000	670,000	83,290,000	99,185,000	2,070,000	101,255,000
2012 - 2016	85,150,000	3,825,000	455,960,000	544,935,000	12,025,000	556,960,000
2017 - 2021	58,425,000	1,800,000	484,225,000	544,450,000	9,590,000	554,040,000
2022 - 2026	-	-	260,665,000	260,665,000	1,795,000	262,460,000
2027 - 2029	-	-	21,075,000	21,075,000	-	21,075,000
	204,550,000	8,725,000	1,582,765,000	1,796,040,000	31,720,000	1,827,760,000
Remaining accretion / premium (discount)/ loss on advanced refunding	-	-	46,893,127	46,893,127	(767,813)	46,125,314
	$ 204,550,000	$ 8,725,000	$ 1,629,658,127	$ 1,842,933,127	$ 30,952,187	$ 1,873,885,314
Interest:						
June 30, 2007	$ 12,273,000	$ 377,614	$ 75,470,755	$ 88,121,369	$ 1,354,111	$ 89,475,480
June 30, 2008	12,033,000	357,233	75,560,199	87,950,432	1,314,470	89,264,902
June 30, 2009	11,235,000	334,728	72,724,067	84,293,795	1,261,782	85,555,577
June 30, 2010	10,401,000	310,033	69,597,214	80,308,247	1,198,330	81,506,577
June 30, 2011	9,528,000	283,398	65,846,948	75,658,346	1,126,636	76,784,982
2012 - 2016	33,204,000	944,339	264,930,238	299,078,577	4,239,894	303,318,471
2017 - 2021	7,092,000	112,188	142,804,932	150,009,120	1,416,168	151,425,288
2022 - 2026	-	-	38,283,119	38,283,119	208,913	38,492,032
2027 - 2029	-	-	1,256,581	1,256,581	-	1,256,581
	$ 95,766,000	$ 2,719,533	$ 806,474,053	$ 904,959,586	$ 12,120,304	$ 917,079,890
Total Debt Service	$ 300,316,000	$ 11,444,533	$ 2,436,132,180	$ 2,747,892,713	$ 43,072,491	$ 2,790,965,204

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Changes in long-term debt were as follows based on type of activity:

	Balance, July 1	Increases	Decreases	Balance, June 30	Within One Year	Amounts Due Thereafter
Governmental Activities:						
Revenue bonds and notes payable	$ 2,322,492,123	$ 428,110,937	$ 57,101,867	$ 2,693,501,193	$ 135,214,815	$ 2,558,286,378
Due to primary government	15,356,243	2,192,655	14,493,554	3,055,344	2,938,146	117,198
Due to federal government	292,184	-	-	292,184	-	292,184
Bond Anticipation Notes	-	864,380	-	864,380	-	864,380
Deferred revenue	-	3,000,000	-	3,000,000	75,000	2,925,000
	$ 2,338,140,550	$ 434,167,972	$ 71,595,421	$ 2,700,713,101	$ 138,227,961	$ 2,562,485,140
Business-Type Activities:						
Revenue bonds payable	$ 1,887,786,917	$ 225,907,264	$ 239,808,867	$ 1,873,885,314	$ 66,250,000	$ 1,807,635,314
Due to primary government	500,000	3,618,527,566	-	3,619,027,566	3,618,527,566	500,000
Due to federal government	-	333,000		333,000	-	333,000
Deferred revenue	-	3,765,476,316		3,765,476,316	50,206,350	3,715,269,966
	$ 1,888,286,917	$ 7,610,244,146	$ 239,808,867	$ 9,258,722,196	$3,734,983,916	$ 5,523,738,280

The following is a summary of long-term debt outstanding at June 30, 2006, for each fund with the activity categories:

	Interest Rates Range	Maturity Range	Annual Principal Payment Range	Amount
Governmental Activities:				
Highway Revenue	2.25% to 7.40%	2007 to 2029	$35,020,000 to $278,265,000	$1,361,219,842
State Office Building Commission	2.00% to 7.50%	2007 to 2028	$6,225,000 to $61,070,000	932,281,351
Stadium Project	2.55%-4.23%	2035	$3,775,000 to $56,750,000	400,000,000
				$2,693,501,193
Business-type Activities:				
Airport Facilities	3.50% to 6.00%	2007 to 2018	$4,000,000 to $20,150,000	$ 204,550,000
Aviation Technology Center	3.60% to 5.00%	2007 to 2018	$575,000 to $920,000	8,725,000
State Revolving Loan Fund	3.30% to 5.88%	2007 to 2029	$1,165,000 to $106,400,000	1,629,658,127
Recreational Development Commission	2.13% to 5.25%	2007 to 2026	$1,005,000 to $2,700,000	30,952,187
				$1,873,885,314

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

Variable rate long-term debt terms are as follows:

Bond Series	Outstanding Amount	Interest Rate (Range)	Notes
SOBC 2000B	$ 14,700,000	3.95%	(1)
SOBC 2000A	36,400,000	3.95%	(2)
SOBC 2001A	60,900,000	3.95%	(3)
SOBC 2003C	55,075,000	3.70%	(4)
SOBC 2003D	20,475,000	3.75%	(5)
SOBC Hoosier Notes	59,190,000	3.34% to 3.73%	(6)
Total	$246,740,000		
Airport Facilities 2004AF	$ 56,025,000	3.50%	(7)
Airport Facilities 2004BF	79,825,000	5.00%	(8)
Airport Facilities 2004CF	68,700,000	5.05%	(9)
Total	$204,550,000		
Stadium Project 2005A	$400,000,000	3.64% to 3.90%	(10)
Total Variable Rate Debt	$851,290,000		

Notes on Variable Rate Terms:

(1) Hedged tax-exempt variable rate debt. The hedge is based off the BMA index with a floor of 2% and a cap of 4% and expires on July 1, 2011. The fair value of the collar at June 30, 2006 was $180,065.

(2) Hedged tax-exempt variable rate debt. The hedge is based off the BMA index with a floor of 2% and a cap of 4% and expires on July 1, 2011. The fair value of the collar at June 30, 2006 was $370,748.

(3) Hedged tax-exempt variable rate debt. The hedge is based off the BMA index with a floor of 2% and a cap of 4% and expires on July 1, 2011. The fair value of the collar at June 30, 2006 was $666,837.

(4) Unhedged Variable Rate Debt.

(5) Unhedged Variable Rate Debt.

(6) Short term Commercial Paper. Interest rates on the Notes ranged from 3.34% to 3.73%. The Authority has a $75 million letter of credit with a financial institution guaranteeing the Hoosier Notes balance in the case of its default.

(7) Hedged tax-exempt variable rate debt. The hedge is based on the BMA index with a cap of 6% and expires on July 1, 2009. As of June 30, 2006, the market value for this hedge is $0 to the Authority. However, should there be a rise in interest rates closer to the index rate in the hedge, there will be a positive market value.

(Continued)

NOTE 7 – LONG-TERM DEBT ACTIVITY (Continued)

(8) Hedged taxable variable rate debt. The hedge is based on the one Month LIBOR index with a cap of 6% and expires on July 1, 2009. As of June 30, 2006, the market value for this hedge is $0 to the Authority. However, should there be a rise in interest rates closer to the index rate in the hedge, there will be a positive market value.
(9) Hedged taxable variable rate debt. The hedge is based on the one Month LIBOR index with a cap of 7% and expires on July 1, 2009. As of June 30, 2006, the market value for this hedge is $0 to the Authority. However, should there be a rise in interest rates closer to the index rate in the hedge, there will be a positive market value.
(10) Hedged tax-exempt variable rate debt. An interest rate swap will commence for these bonds on August 15, 2008 with the IFA receiving the BMA Index and paying the swap counterparties a fixed rate of 4.231%.

2005 Interest Rate Swap Agreement

Objective of the Interest Rate Swap Agreement: In order to protect against the potential of rising interest rates, the Indiana Finance Authority entered into two separate pay-fixed, receive-variable interest rate swaps

Terms, fair values, and credit risk. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2006, were as follows. The notional amounts of the swaps match the anticipated principal amounts of the associated debt. The Finance Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated "bonds payable" category.

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date
Stadium Project	$ 611,525,000	8/15/2008	4.231%	BMA*	$ 22,745,234	2/2037
Convention Center	265,175,000	12/01/2010	4.556%	BMA	4,373,410	2/2039
	$ 876,700,000				$ 27,118,644	

* The Bond Market Association Municipal Swap Index.

The Swap counterparties included Bear Stearns, Goldman Sachs, JP Morgan and Merrill Lynch. They were rated by Moody's as being Aaa, Aa3, Aa2 and Aa3, respectively.

Termination Risk. The Indiana Finance Authority or the Swap Provider may terminate the Swap if the other party fails to perform under the terms of the contract (as defined by the Swap Agreement). If at the time of termination, the Swap has a positive fair value, the Swap providers would be liable to the Finance Authority for a payment equal to the Swap's fair value.

(Continued)

NOTE 8 – BOND REFUNDINGS AND ESCROW BALANCES ON BONDS

The IFA analyzes it various bond issues to determine if any opportunities exist for debt service requirement savings through the refinancing of long-term debt. IFA had refunding and defeasance activity as reported below. In addition, current period and previous refundings and defeasances had remaining bonds outstanding being paid from escrow accounts that are not included in the IFA financial records based on accounting guidance.

Bond Refundings and Defeasances: The following represents bond refunding and defeasance during the ended June 30, 2006:

Business-Type Activities:

- **State Revolving Fund** - In December 2005, the IFA issued Series 2005A Refunding Bonds for the aggregate amount of $277,930,000, which included $258,815,000 of refunding debt and $19,115,000 of new money debt. The refunding was undertaken to reduce total future debt service payments. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds. A portion of the proceeds plus amounts held in bond reserve accounts of $302,453,645 was deposited in an escrow fund, which will pay principal and interest for the defeased debt. As a result of the refunding, an economic gain, or present value savings, of $13.8 million was realized and a reduction of $75.2 million in future debt service payments.

- **Indiana Toll Road Bonds** - On June 29, 2006, the IFA defeased all outstanding bonds including Series 1985, 1987 and 1996 Bonds with principal totaling $190,805,000, through cash payment to an escrow account.

Escrow Balances on Refunded and Defeased Bonds: The IFA has the following bond issues that have been refunded, but have remaining principal balances to be paid by escrow agents' accounts. The refunded bonds are not reported as a debt of the IFA since payment of principal and interest are from escrowed funds and investment earnings. Activity includes:

Governmental Activities:

- **State Office Building Commission** – The IFA has issued several bonds used to refund prior issues. At June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $252,925,000

- **Highway Revenue Bonds –** The IFA issued Highway Revenue Bonds, Series 2000, which were used to refund certain Highway Revenue Bonds, Series 1990A and 1993A, when due. The IFA issued Series 2004 B and C, which were used to refund certain Series 1998A, Series 2000, and Series 2003A bonds. As of June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $310,136,000.

(Continued)

NOTE 8 - BOND REFUNDINGS AND ESCROW BALANCES ON BOND REFUNDINGS (Continued)

Business-Type Activities:

- **State Revolving Fund** - The IFA issued Series 2005A Refunding Bonds for the aggregate amount of $277,930,000, which included $258,815,000 of refunding debt. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds. At June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $275,800,000.

- **Indiana Toll Road Bonds** - In 1985, the IFA issued $256,970,000 of Indiana Toll Road Revenue Refunding Bonds, Series 1985, to refund the Indiana Toll Road Bonds, 1980 Series. At June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $107,965,000.

  On June 29, 2006, the IFA defeased all outstanding bonds, including Series 1985, 1987, and 1996 Bonds with principal totaling $190,805,000, through cash payment to an escrow account. At June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $190,805,000.

- **Airport Facilities -** In December 2004, the IFA issued $204,550,000 of Airport Facilities Multi-Mode Lease Revenue Refunding Bonds, 2004 Series, which refunded Series 1992A, 1995A and 1996A bonds. At June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $133,625,000.

- **Recreational Development Commission** – The IFA issued $14,400,000 of Series 2002 Revenue Bonds and $ 12,780,000 of Series 2004 Revenue Bonds, which were used to refund Series 1994A Revenue Bonds. At June 30, 2006, the amount of defeased debt still outstanding, but no longer considered Long-term Debt, was $0.

NOTE 9 - CONDUIT DEBT OBLIGATIONS AND REIMBURSEMENT AGREEMENT LOSS

Conduit Debt Obligations: The IFA is authorized by law to issue conduit and certain other types of revenue bonds to finance projects that serve Indiana public purposes outlined by statute. Except as described below, IFA's revenue bonds are payable solely from revenues of IFA specifically pledged thereto. The bonds are not in any respect a general obligation of IFA or the State, nor are they payable in any manner from revenues raised by taxation. IFA has no power to levy taxes. Pursuant to this authority, IFA has issued numerous revenue bonds.

Reimbursement Agreement Loss: The Qualitech Steel and Heartland Steel bonds described below were completely repaid and defeased on August 1, 2006.

Qualitech Steel – The IFA had been a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation ("Qualitech"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to the Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) ("Bonds").

The Bank issued an irrevocable direct-pay letter of credit to secure the Bonds further. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech's payment default with respect to the Bonds, the IFA agreed with the Bank to use money lawfully available to the IFA, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

For FY 2005 and FY 2006, the Indiana General Assembly appropriated sufficient funds to the State Budget Agency for transfer to the IFA to make bond and related payments during those fiscal years. During the fiscal year ended June 30, 2006, the IFA recorded expenses for such bond and related payments of $2,449,076. The amount of the outstanding principal of the Bonds was $22,100,000 as of June 30, 2006.

Heartland Steel – The IFA had been a party to an Amended and Restated Reimbursement Agreement with Heartland Steel, Inc. ("Heartland"), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA ("Bank"), relating to the Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) ("Bonds").

(Continued)

NOTE 9 - CONDUIT DEBT OBLIGATIONS AND REIMBURSEMENT AGREEMENT LOSS (Continued)

The Bank issued an irrevocable direct-pay letter of credit to secure the Bonds further. As a result of Heartland's payment default with respect to the Bonds, IFA agreed with the Bank to use money lawfully available to IFA, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

For FY 2005 and FY 2006, the General Assembly appropriated sufficient Guaranty funds to make bond and related payments during those fiscal years. During the fiscal year ended June 30, 2006, IFA recorded expenses for bond and related payments of $940,558. The amount of the outstanding principal of the Bonds was $9,700,000 as of June 30, 2006.

NOTE 10 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET

Bond issuance costs and deferred charges associated with long-term debt at June 30, 2006 were $17,225,000 and include the following activities:

Governmental Activities:

- State Office Building Commission – Amounts include bond issuance costs and other deferred charges, which are being amortized using the interest method over the life of the related bond issue.

Gross amount	$ 16,886,000
Accumulated amortization	(9,554,698)
Net amount	$ 7,331,302

Amortization expense for the year ended June 30, 2006 was approximately $991,000. At June 30, future amortization of deferred charges is estimated as follows

2007	$ 930,000
2008	866,000
2009	797,000
2010	728,000
2011	654,000
Thereafter through 2028	3,356,302
	$ 7,331,302

(Continued)

NOTE 10 – UNAMORTIZED BOND ISSUANCE COSTS AND DEFERRED CHARGES, NET (Continued)

Business Type Activities:

- **State Revolving Fund Program** – Amounts represent deferred charges, which are amortized using the interest method over the life of the related bond issue.

Deferred charges	$ 14,627,756
Accumulated amortization	(5,238,319)
Net amount	$ 9,389,437

Amortization expense for the year ended June 30, 2006 was approximately $1,014,000. Future amortization of deferred charges is as follows at June 30:

2007	$ 1,120,033
2008	1,038,203
2009	953,364
2010	860,986
2011	775,189
Thereafter	4,641,662
	$ 9,389,437

- **Recreational Development Commission** - Amounts represent bond issuance costs, which are amortized using the interest method over the life of the related bond issue.

Bond issuance costs	$ 667,540
Accumulated amortization	(163,279)
Net amount	$ 504,261

Amortization expense for the year ended June 30, 2006 was approximately $50,000. Future amortization is estimated as follows at June 30:

2007	$ 50,000
2008	50,000
2009	50,000
2010	50,000
2011	50,000
Thereafter	254,261
	$ 504,261

NOTE 11 – SHORT-TERM OBLIGATIONS

Governmental Activities: The following schedule shows the changes in short-term obligations during the year:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Limited Recourse Promissory Note (Stadium Project), Series 2005A	$ -	$ 3,000,000	$ (3,000,000)	$ -
Limited Recourse Promissory Note (Stadium Project), Series 2005B	$ -	$ 40,000,000	$ (40,000,000)	$ -

The IFA issued variable rate limited recourse promissory notes related to the Stadium Project to pay interim project costs. During the year, the Stadium Project promissory notes were refinanced through the $400,000,000 Lease Appropriation Bonds (Stadium Project), Series 2005A.

NOTE 12- OPERATING LEASE COMMITMENTS

The IFA has the following operating lessee and lessor agreements:

Lessee – Governmental Activities

- **General Fund**- The IFA currently leases office space pursuant to a non-cancelable operating lease expiring in March 2011. The future total minimum rental payments of approximately $725,000 range from $141,000 to $147,000 per year for 2007 through 2011. Rental expense for the operating lease was approximately $132,000 for the year ended June 30, 2006.

Lessor – Governmental Activities

- **State Office Building Commission** – Operating lease activity included:

  - The Commission leases state facilities to the Indiana Department of Administration based on use and occupancy agreements. The annual lease terms provide for renewals through supplement agreements. The lease rental payments are based on administrative costs, aggregate debt service requirements on related long-term debt, debt service reserve requirements, and replacement reserve for maintenance and improvements of facilities. During the year ended June 30, 2006, lease revenue of approximately $101 million was recognized.

(Continued)

NOTE 12- OPERATING LEASE COMMITMENTS (Continued)

- In March of 1995, the Commission entered into a twenty-five year land lease agreement with the White River State Park Development Commission (WRSPDC) to lease a portion of the White River State Park for $1 per year while providing in excess of $15,000,000 of infrastructure improvements.

- On April 14, 1998, the Commission purchased the IMAX Theatre building and land in White River State Park from the State for $10,000,000. Additionally, the Commission entered into a one hundred-year land lease agreement to lease certain real estate surrounding the IMAX Theatre building from the State for $1 per year. This real estate was required to be used to construct the Indiana State Museum and a parking garage.

Lessor – Business-Type Activities

- **Indiana Toll Road** - On June 29, 2006, the Indiana Toll Road was leased for approximately $3.765 billion and a term of 75 years to the Indiana Toll Road Concession Company, LLC. The entire amount was paid up front and there are no additional lease payments due for the remainder of the term of the lease. The IFA recorded the transaction as an operating lease and recorded the payment as deferred revenue. Lease rental revenue is recognized on a straight-line basis over the life of the 75-year lease. Lease revenue (in thousands) net of related costs, totaling $3.765 billion, will be recognized as follows for the fiscal years ending June 30:

2007	$ 50,206
2008	50,206
2009	50,206
2010	50,206
2011	50,206
2012 - 2016	251,030
2017 - 2021	251,032
2022 - 2026	251,032
2027 - 2031	251,032
2032 - 2036	251,032
2037 - 2041	251,032
2042 – 2046	251,032
2047 – 2051	251,032
2052 – 2056	251,032
2057 – 2061	251,032
2062 – 2066	251,032
2067 – 2071	251,032
2072 – 2076	251,032
2077 – 2081	251,032
Total	$ 3,765,476

(Continued)

NOTE 12- OPERATING LEASE COMMITMENTS (Continued)

Recreational Development Commission - The Commission leases various facilities to the Department of Natural Resources (DNR) that were constructed or renovated using bond issue proceeds. The lease is subject to the terms of the Master Use and Occupancy Agreement dated March 1, 1994, and is accounted for as an operating lease.

Although the initial agreement terminated on June 30, 1995, both parties have extended the term of this agreement until June 30, 2026. The Commission and the DNR have the right to extend the term of the agreement from biennium to biennium. The Commission and the DNR are deemed to have exercised this right to extend. The term of the Master Use and Occupancy Agreement is extended, for each successive biennium, unless either the Commission or the DNR delivers written notice of non-extension to the other party not less than three months prior to the last day of any biennium, in which event the Master Use and Occupancy Agreement will terminate on the last day of such biennium.

Minimum aggregate annual lease payments under the facilities leases are as follows:

2007	$ 2,772,199
2008	3,080,873
2009	3,136,478
2010	3,199,084
2011	3,248,020
2012 - 2016	16,259,341
2017 - 2021	28,688,201
2022 - 2026	1,633,523
Total	$ 62,017,719

NOTE 13- INTERFUND LOANS RECEIVABLE AND PAYABLE

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. To the extent that certain transactions between funds are not paid or received in the current period, net interfund receivable and payable balances are recorded at June 30, 2006, as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ 307,555	$
Special Revenue Funds:		
Business Development Fund		108,451
Environmental Remediation Revolving Loan Fund		44,581
Petroleum Remediation Grant Fund	7,135	
Enterprise Funds:		
State Revolving Fund Program		53,259
Internal Service Funds:		
Recreational Development Commission	16,401	5,808
Transportation Finance Fund		42,573
State Office Building Commission		76,421
	$ 331,091	$ 331,093

NOTE 14 – SUBSEQUENT EVENTS

The following subsequent events have been provided for users of the financial statements. None of the subsequent events resulted in changes to the financial statements at June 30, 2006.

Governmental Activities:

- **Indiana Finance Authority Guaranty Fund - Reimbursement Agreement Loss:** The Qualitech Steel and Heartland Steel bonds described in Note 9 were completely defeased on August 1, 2006.

Business-Type Activities:

- **Indiana Toll Lease Finance Program:** In July 2006, IFA remitted approximately $3.6 billion to the State to release the liability balance "Due to primary government."

NOTE 15 - PENSION PLAN

The IFA elected to become a participant in the Public Employers' Retirement Fund (PERF). The IFA contributes to the PERF, an agent multiple-employer public employee retirement system, which acts as a common investment and administrative agent for state employees and employees of the various instrumentalities of the State. All full-time state employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give the IFA the right to contribute and govern most requirements of the system, including the benefits, which vest after ten years of service. Employees who have reached age 50 may receive retirement benefits with fifteen years of service. An employee may receive benefits at age 65 with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Effective July 1, 1986, legislation permits a PERF employer to make the employee contributions on behalf of the employee. The IFA elected to pay its employees' 3% contribution. The employer rate of contributions was 4.5% during Fiscal Year 2006. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of the savings account.

PERF holds and invest all plan assets. Investments are in obligations of the U.S. Government, federal agencies, corporate bonds and equity securities. There is no (i) pension benefit obligation information, (ii) assets available for benefits at cost information or (iii) an analysis of funding disclosed in the annual financial statements. However, PERF performed an actuarial valuation of the IFA's plan as of June 30, 2006, which is included in the Annual Report of the Indiana Public Employees' Retirement Fund for state employees and employees of the various subdivisions of the State. The IFA's contributions to PERF were in accordance with the requirements computed in the actuarial valuation performed June 30, 2006, the last date available. The following shows current year pension plan information relative to contributions:

Year	Employer Contributions	Employee Contributions	Total Contributions	Annual Covered Payroll	Percentage of Employer Contributions to Covered Payroll
2006	$ 54,707	$ 36,758	$ 91,465	$1,215,707	4.50%

Information regarding PERF may be obtained from:

Public Employees' Retirement Fund
143 W. Market Street
Indianapolis, IN 46204

PART 3 - REQUIRED SUPPLEMENTAL INFORMATION

Budget Basis of Accounting: The IFA's budget process is based on a modified cash basis and accounts for certain transactions on a basis other than GAAP. The most significant differences between the budget basis and the GAAP basis are the manner in which revenues and expenses are recorded. Under the modified cash budget basis, the portion of lease rental income apportioned to principal payments is recorded as revenue and the debt service expense portion related to principal is recorded as expense. For government wide reporting, the portion attributable to principal on capital lease assets and bonds payable are reflected as changes in assets and liabilities in the balance sheet funds and statement of net assets.

The following table shows budget and actual financial results reported under the budgetary basis of accounting. The activities of the State Revolving Fund Programs, the Interstate Bridge Fund, and the Toll Bridge Fund are not included in the table below because these activities were not considered in the IFA budget presented.

	Budget Total	Actual Total	Difference
Revenues			
Lease rental income	$ 232,094,000	$ 232,425,000	$ 331,000
Appropriations (Note 1)	7,816,000	6,541,000	(1,275,000)
Program service, advisory and fees	800,000	1,218,000	418,000
Total revenues	240,710,000	240,184,000	(526,000)
Debt service			
Interest (Note 2)	151,581,000	138,708,000	(12,873,000)
Principal	71,942,000	71,662,000	(280,000)
Heartland and Qualitech reimbursements	4,221,000	3,390,000	(831,000)
Total debt service	227,744,000	213,760,000	(13,984,000)
Program expenses			
Grants, loans and other program (Note 3)	14,420,000	4,004,000	(10,416,000)
Total program expenses	14,420,000	4,004,000	(10,416,000)
Administrative expenses			
Personal services	1,434,000	1,208,000	(226,000)
Other IFA operations	969,000	988,000	19,000
Total operating expenses	2,403,000	2,196,000	(207,000)
Net revenues over expenses	$ (3,857,000)	$ 20,224,000	$ 24,081,000

Note 1: The State budgeted appropriation for the Environmental Remediation Revolving Loan Fund was $1.275 million in Fiscal Year 2006. The IFA did not draw any of this appropriation during the year because it was evaluating the program.

Note 2: The IFA budgets conservatively for the variable rate bond issues using the highest estimates.

Note 3: Budgeted expenses include grant and loan commitments. Grant and loan commitments were approximately $9.8 million at June 30, 2006.

CONDITION RATING OF THE INDIANA TOLL ROAD PROJECT'S HIGHWAYS AND BRIDGES

Roads

	Percentage of Lane Miles in Good or Better Condition		
	2006	2005	2004
Interstate Roads	91%	91%	96%

	Percentage of Lane Miles in Substandard Condition		
	2006	2005	2004
Interstate Roads	0.6%	0.6%	-0-%

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of six distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good or better condition (70-100), fair condition (50-69), substandard condition (less than 50). It is the State's policy to maintain at least 85% of its road system at a good or better condition level. No more than 10% should be in substandard condition. Condition assessments are determined every year.

Bridges

	Percentage of Bridges in Good or Better Condition		
	2006	2005	2004
Interstate Bridges	100%	100%	100%

	Percentage of Bridges in Substandard Condition		
	2006	2005	2004
Interstate Bridges	-0-%	-0-%	-0-%

The condition of the State's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to a 7.0 (new). It is the State's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1%. All bridges are inspected every two years.

PART 4 - OTHER SUPPLEMENTAL INFORMATION

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF NET ASSETS
Year ended June 30, 2006

	Business Type Activities					Governmental Type Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Assets								
Current assets	$ 739,384,046	$ 2,467,961	$ 15,475,109	$ 1,132,824	$ 6,817,190	$ 226,204,852	$ 143,310,914	$ 990,394
Capital and infrastructure assets	-	29,978,104	-	-	-	889,803,234	-	-
Noncurrent assets	1,683,102,455	504,261	197,923,684	8,150,000	-	7,331,302	1,253,089,698	400,000,000
Total Assets	2,422,486,501	32,950,326	213,398,793	9,282,824	6,817,190	1,123,339,388	1,396,400,612	400,990,394
Liabilities								
Current liabilities	30,246,150	749,904	599,319	136,516	-	39,927,054	8,020,974	126,014
Long term debt, including current portions	1,629,658,127	30,952,187	204,550,000	8,725,000	-	932,281,352	1,361,219,841	400,864,380
Other noncurrent liabilities	333,000	500,000	-	-	-	3,217,184	-	-
Total liabilities	1,660,237,277	32,202,091	205,149,319	8,861,516	-	975,425,590	1,369,240,815	400,990,394
Net Assets								
Invested in capital assets, net of related debt	-	-	-	-	-	3,933,356	-	-
Unrestricted	-	748,235	373,643	419,633	6,817,190	16,995,709	1,822,504	-
Restricted	762,249,224	-	7,875,831	1,675	-	126,984,733	25,337,293	-
Total Net Assets	$ 762,249,224	$ 748,235	$ 8,249,474	$ 421,308	$ 6,817,190	$ 147,913,798	$ 27,159,797	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2006

	Business Type Activities					Governmental Type Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Operating Revenues								
Lease rental	$ -	$ 2,011,586	$ 12,862,898	$ 597,799	$ 14,208,686	$ 101,075,287	$ 76,437,698	$ -
Interest on loans	36,992,165	-	-		-	-	-	8,988,219
State appropriations and grants	-	-	-	-	-	-	-	-
Other	27,000	4	-	27	-	3,306,856	-	-
Total Operating Revenues	37,019,165	2,011,590	12,862,898	597,826	14,208,686	104,382,143	76,437,698	8,988,219
Operating Expenses								
IFA Operations	2,145,541	130,281	722,609	219,166		2,896,201	244,879	-
Interest expense	69,300,623	1,505,066	7,978,828	395,513	14,208,686	46,648,005	73,017,919	8,988,219
Depreciation expense	1,013,570	912,023	-	-		25,287,631	-	-
Total Operating Expenses	72,459,734	2,547,370	8,701,437	614,679	14,208,686	74,831,837	73,262,798	8,988,219
Operating income (loss)	(35,440,569)	(535,780)	4,161,461	(16,853)	-	29,550,306	3,174,900	-
Nonoperating Revenues (Expenses)								
Investment earnings, net	60,572,534	42,923	441,804	18,266	-	7,103,303	5,358,628	-
Change in interest in Toll Road Project	-	-	-	-	5,722,257	-		-
Total nonoperating revenues (expenses)	60,572,534	42,923	441,804	18,266	5,722,257	7,103,303	5,358,628	-
Income before capital contributions and tranfers	25,131,965	(492,857)	4,603,265	1,413	5,722,257	36,653,609	8,533,528	-
Capital contributions	33,283,045	-	-	-	-	-	-	-
Transfer in (out)	-	-	(25,454)	(25,454)	(241,805,650)	-	(229,083)	-
Change in net assets	58,415,010	(492,857)	4,577,811	(24,041)	(236,083,393)	36,653,609	8,304,445	-
Total net assets, beginning	703,834,214	1,241,092	3,671,663	445,349	242,900,583	111,260,189	18,855,352	-
Total net assets, ending	$ 762,249,224	$ 748,235	$ 8,249,474	$ 421,308	$ 6,817,190	$ 147,913,798	$ 27,159,797	$ -

INDIANA FINANCE AUTHORITY
SEGMENT REPORTING
STATEMENT OF CASH FLOWS
Year ended June 30, 2006

	Business Type Activities					Governmental Type Activities		
	State Revolving Fund	Recreational Development Commission	Airport Facilities Bonds	Aviation Technology Center Bonds	Toll Road Project	State Office Building Commission	Highway Revenue Bonds	Stadium and Convention Center Financing
Net Cash Provided (Used) By:								
Operating activities	$ (1,096,242)	$ 1,944,814	$ 12,434,869	$ 355,623	$ -	$110,447,594	$ 76,288,591	$ -
Investing activities	(66,542,022)	(880,700)	(210,609)	14,291	-	(31,440,913)	5,112,708	(392,002,174)
Noncapital financing activities	118,548,923	-	-	-	-	-	-	-
Capital and related financing activities	1,790,150	(2,008,944)	(7,575,609)	(395,495)	-	(62,034,466)	(144,240,257)	392,002,174
Net Increase (Decrease) in Cash	52,700,809	(944,830)	4,648,651	(25,581)	-	16,972,215	(62,838,958)	-
Cash and cash equivalents, beginning	571,622,475	3,334,881	6,235,252	445,248	-	191,002,030	166,782,862	-
Cash and cash equivalents, ending	$ 624,323,284	$ 2,390,051	$ 10,883,903	$ 419,667	$ -	$207,974,245	$ 103,943,904	$ -

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Indiana Finance Authority

We have audited the financial statements of the Indiana Finance Authority (the IFA), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the IFA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Indiana State Board of Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 11, 2006